NiSource™

a perfect fit

ANNUAL REPORT 2000

exploration & production

pipeline

storage

distribution

generation

distributed generation

merchant

business services

table of contents

Dear Fellow Shareholder:

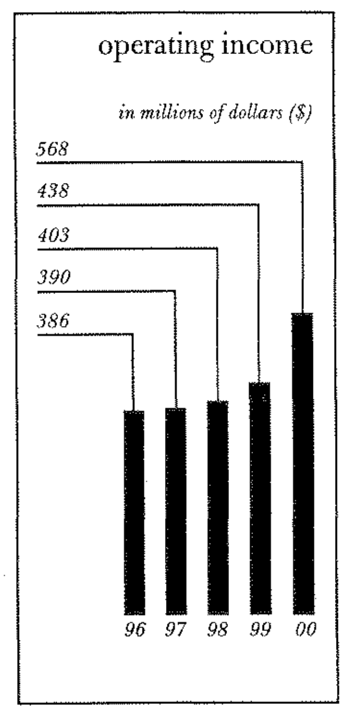
The year 2000 was a monumental one for NiSource. With the completion of the merger with Columbia Energy Group on Nov. 1, 2000, your company has joined the ranks of the nation's leading energy companies. Today, NiSource is well positioned to maximize the value of our unparalleled assets to the benefit of our customers and shareholders.

GARY L. NEALE
Chairman, President and Chief Executive Officer

NiSource has grown from being a strong regional player to a super-regional powerhouse in the high-demand energy corridor stretching from the Gulf of Mexico through the Midwest to the Northeast. More importantly, NiSource has shifted from being primarily an electric company to a gas company. Before the merger, NiSource derived one-third of its revenues from natural gas operations and two-thirds from electric operations. By the end of 2001, two-thirds of our revenues will be derived from gas and one-third from electric.

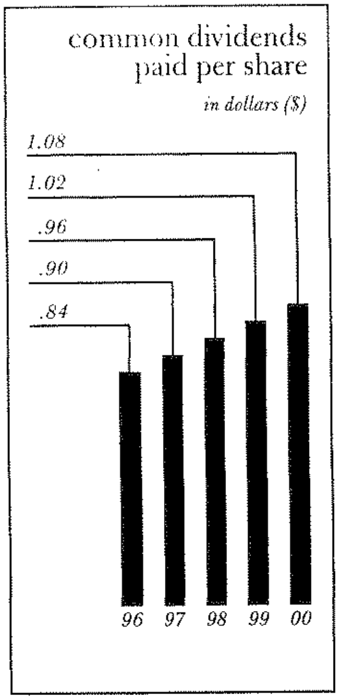
With gas exploration and production, transmission and storage, and distribution assets all in the same corridor, NiSource is now the most vertically integrated gas company in the business. We are the largest gas distributor east of the Rocky Mountains, the fourth-largest gas pipeline company in the U.S. and one of the nation's largest gas storage networks. Our low-cost portfolio of coal-fired power generation interconnects with neighboring distributors, enabling NiSource to buy and sell energy in Midwest markets.

The company we have created is poised to take advantage of the changing landscape in today's energy marketplace. Our goal at NiSource is to create superior long-term shareholder value by being the leader in our chosen markets. We've positioned ourselves with the right assets located in the best energy markets in the U.S. Extending from the Gulf through Chicago to New England, this market is home to 30 percent of the U.S. population and 40 percent of its energy consumption.



When we announced the signing of a merger agreement on Feb. 27, 2000, many observers said we would have difficulty getting timely regulatory approval. Some of the skeptics doubted that we could integrate the pieces of the business.

I am pleased to report that NiSource and Columbia employees worked together to obtain the required regulatory approvals and complete the transaction in record time. At the same time, merger integration teams comprised of employees from both companies focused on creating a new company. On Nov. 1, 2000, the organization and people were in place, and the new NiSource was up and running. The creativity, focus and teamwork displayed by our people during the merger process is a strong indication of how we expect this company to perform going forward.

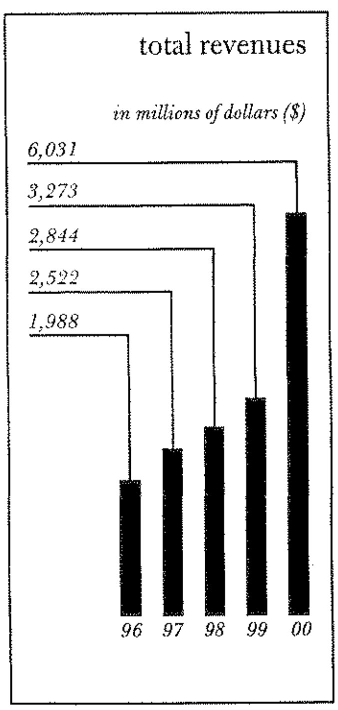


NiSource is now well positioned to rapidly grow shareholder value. All transaction costs and most merger-integration costs are now behind us, and the Columbia merger has been permanently financed in the capital markets. With the exception of our water operations, we have completed most of our planned sales of non-core assets. Sale of our water operations is a condition of the U.S. Securities and Exchange Commission's approval of the NiSource-Columbia merger, and we expect it will be completed in 2001.

We are on track to realize net merger savings of approximately $100 million in 2001 from the elimination of duplicate corporate and administrative functions and from greater efficiencies in operations, business processes and systems. As a result, we expect the Columbia merger to be accretive to earnings in 2001, the first full year of operations for the new company.

Looking back over the year 2000, NiSource's financial performance exceeded our expectations. NiSource reported 2000 net income of $253.9 million from continuing operations before one-time items. Although the acquisition and non-recurring items make 2000 results difficult to compare to those of 1999, it's important to note key developments during the fourth quarter.

First, we added more than two million Columbia gas distribution customers, bringing NiSource's total gas and electric distribution customer-count up to 3.6 million in nine states. In addition, record-breaking cold weather in our market territories stimulated greater gas usage by those customers. We saw improved results from our natural gas trading activities and higher electric sales, driven primarily by the wholesale market. And our new business segments — natural gas exploration and production, and gas transmission and storage — performed extremely well.



We are, however, very concerned about the impact the current spike in natural gas prices is having on our customers. Projections of increasing demand for gas-fired electric generation last spring and predictions of a colder-than-normal winter fueled speculation in the commodities markets, driving up gas prices to unprecedented levels. Prices peaked in January 2001 at almost quadruple those of a year earlier. As a result, customers have seen increases of up to 70 percent in their monthly gas bills.

When we saw the surge in prices coming, NiSource used every asset and all the market muscle we had available to mitigate the effects of this national market situation on our customers. We filled our extensive gas storage at summer prices to be used to meet winter demand. Storage, along with our portfolio of long- and short-term gas purchase contracts, helped us obtain the best possible prices for our customers. We launched an aggressive campaign to educate key stakeholders — customers, regulators and elected public officials — about the depth and breadth of this national problem.

NiSource companies in all of our service areas also increased contributions to low-income energy assistance programs and worked with social service agencies to distribute weatherization kits for low-income homeowners.

Looking ahead, based on the doubling in the past eight months of the number of drilling rigs in the gas-producing regions of the U.S., we expect supply to increase and prices to moderate by late spring.

As we worked over the past year to bring the pieces of our new company together, we envisioned our business in multiple dimensions:

1. *Integrated energy solutions for customers.*
2. *Geography, with good customer concentration, where we can arbitrage time and weather.*
3. *Superior skill sets, ranging across the full energy value chain.*

This multi-dimensionality will enable NiSource to effectively capitalize on new opportunities within our expanded footprint.

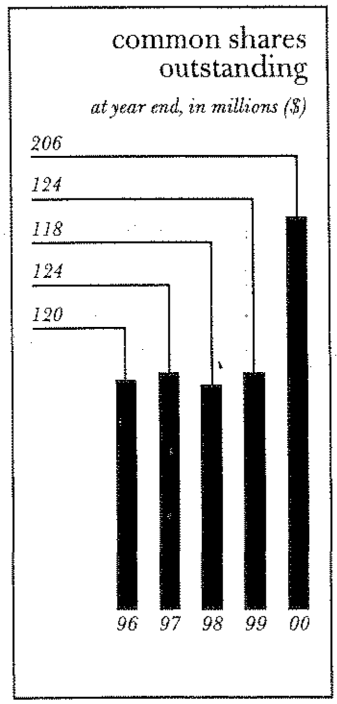
In the following pages, we will discuss the individual pieces of our multi-dimensional business. While these individual pieces are impressive, their real potential emerges when they're joined together, creating new dimensions of value for customers and shareholders.

For example, our energy trading and marketing operations are focused primarily on our assets, markets and customer base. This lets us capitalize on the optionality created by our geographic and supply alternatives. Our large industrial base provides numerous "inside-the-fence" cogeneration opportunities where low-cost excess power generated by these projects can be sold on the wholesale market. In the future, distributed generation can provide customers improved reliability and power quality as a total energy solution. Natural gas-fueled combined heat and power units in the home or business will provide customers a real energy choice, at the same time increasing gas sales and capacity utilization at the pipelines and local gas distribution companies year-round.

We believe more than ever that bringing these pieces together makes a perfect fit.

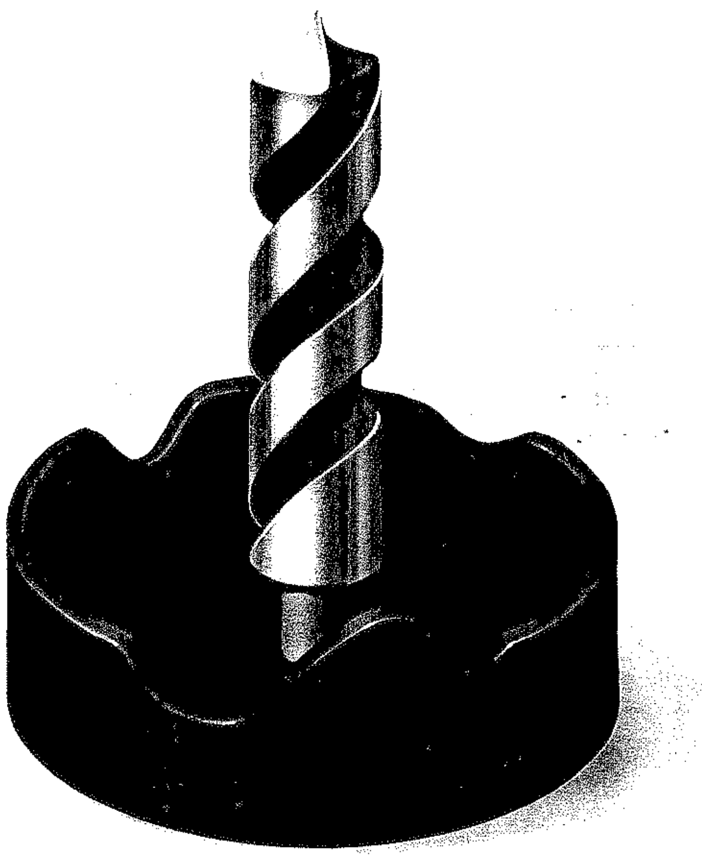
To all of our employees who made the new NiSource a reality, I extend my sincere appreciation. To former Columbia shareholders, I extend a warm welcome. And to the NiSource directors and shareholders, thank you for your unwavering support during this year of transformation.

Gary L. Neale
Chairman, President and Chief Executive Officer
February 21, 2001



exploration & production

JIM ABCOUWER
President and Chief
Executive Officer
Columbia Natural Resources



HERE'S THE DRILL...

THE FIRST LAYER OF NISOURCE'S VERTICALLY INTEGRATED SYSTEM OF ENERGY ASSETS IS OUR EXPLORATION AND PRODUCTION (E&P) SUBSIDIARY, COLUMBIA ENERGY RESOURCES, WITH OPERATIONS IN THE APPALACHIAN BASIN AND IN CANADA.

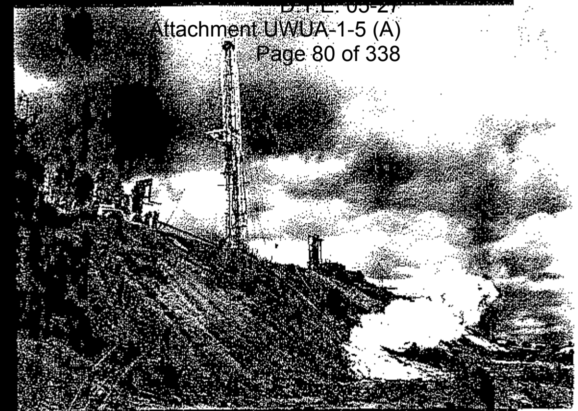
The fuel to heat a home in the harshest winter weather and the power to cool that same home on the hottest summer day originate in the same place: up to 12,000 feet below the earth's surface. In the past, natural gas demand was seasonal, with the lion's share consumed during the winter. But that's changing. Growing demand for gas-fired electric generation and the development of distributed generation technology will not only increase consumption, but will also distribute it year-round.

North America's rich and vast natural gas resource base is capable of meeting U.S. consumption into the latter part of the 21st Century and beyond. New sources of recoverable supply in the western U.S. and Canada, the Gulf of Mexico, the Appalachian Basin and other regions continue to be developed along with more efficient technologies to recover the gas.

The Appalachian Basin, strategically located near expanding markets in the Northeast, has decades of known reserves with gas of high heat value. The region is also significantly less expensive to explore and develop than other gas-producing areas. One of the largest gas producers in this important region is Columbia Energy Resources (CER), NiSource's gas exploration and production unit. CER has the equivalent of 1.1 trillion cubic feet of gas reserves and more than 8,000 wells in operation.

In a growth mode to match rising demand, CER has increased its drilling and prospect development 600 percent since 1997 and has averaged an 85 percent drilling success rate in the past five years. CER's production continued to grow in 2000, rising 14 percent to 52 billion cubic feet.

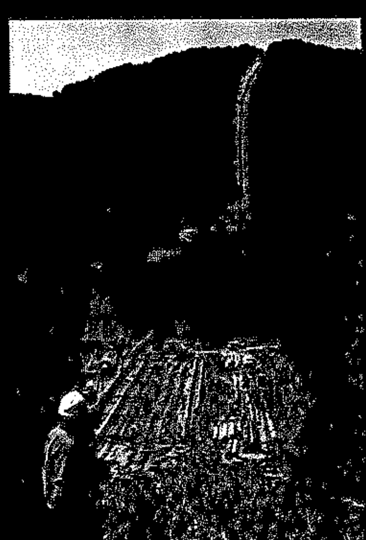
CER aims to continue its growth during 2001 by further expanding drilling activities and production in strategic locations.



In 2000 Columbia Energy Resources drilled 259 new wells resulting in 78.6 billion cubic feet equivalent (Bcfe). Shown here is a new well being flared.

Drill pipes, stacked side-by-side in this rig tower, are connected to each other to allow deep drilling in natural gas wells.

Every day, Gas Control centers for Columbia Gas Transmission and the other NiSource pipeline group companies monitor the transportation of more than 3 billion cubic feet of natural gas through an extensive pipeline system.



2000 was the first full year of operation for the Market Expansion, a three-year, $275 million expansion of pipeline, storage and compressor facilities that increased Columbia Gas Transmission's system capacity by 507,000 dekatherms (dth) per day.

Power producers' reliance on clean-burning natural gas to fuel new power generation facilities offers tremendous opportunities for NiSource's gas transmission assets, consisting of Columbia Gas Transmission Corporation (Columbia Transmission), Columbia Gulf Transmission Company (Columbia Gulf), Crossroads Pipeline Company and Granite State Transmission Company. In the last five years, Columbia pipelines successfully negotiated to attach more than 14,000 megawatts of power load capable of using nearly two Bcf per day of natural gas. In 2000, the pipeline group signed deals representing 40 percent of that growth.

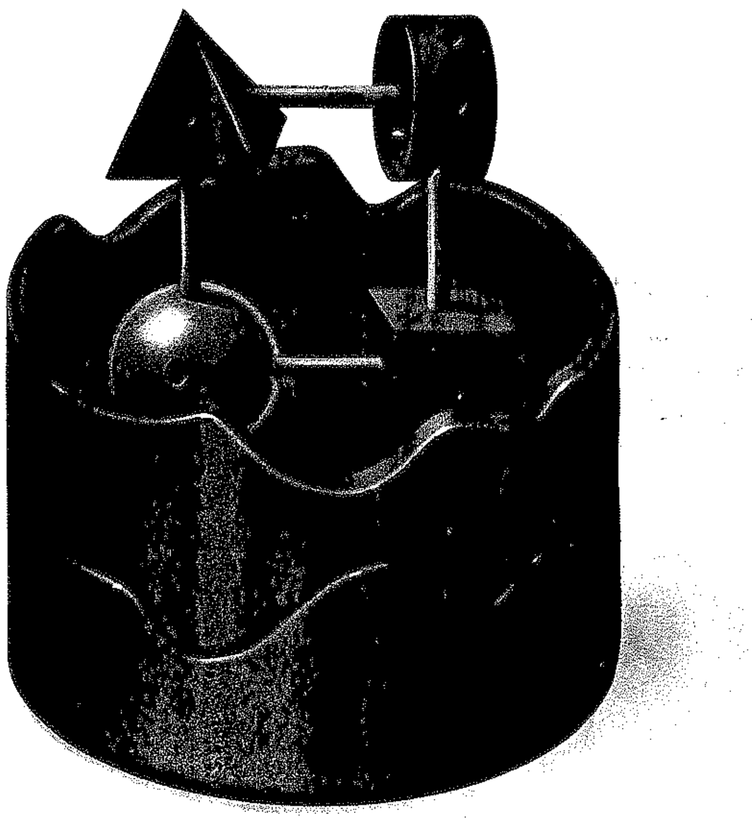
In the capacity-short Northeast, incremental gas demand is expected to increase nearly 50 percent over present levels by 2010. Millennium Pipeline, sponsored by Columbia Transmission and three other partners, will help meet that demand by offering the lowest-cost route for transporting Western Canadian and Midwest gas supply from Ontario to northeastern and mid-Atlantic markets. During 2000, Columbia Transmission captured 2,500 megawatts of new power load, which will come on line over the next two years. The attachment of this load creates additional "demand pull" for the Millennium Pipeline.

In the Southeast, NiSource's pipeline group is poised to capitalize on an anticipated 70 percent increase in the demand for natural gas-fired power generation by 2010. Columbia Gulf added more than one Bcf per day of peak power load since 1996, with seven plants already on line and two under construction. Building for the future, Columbia Gulf has a number of projects in the pipeline to attach additional power load and to access deep water supplies in the Gulf of Mexico.

The pipeline group's top customer service rankings, combined with an emphasis on operational excellence, provides us with a strong competitive advantage in attracting new customers and developing new services to meet increasingly diverse customer needs.

GREAT CONNECTIONS...

MORE THAN 16,700 MILES OF STRATEGICALLY POSITIONED PIPELINE ASSETS TRANSPORT AN AVERAGE OF NEARLY THREE BILLION CUBIC FEET (BCF) PER DAY OF NATURAL GAS, PROVIDING COMPETITIVELY PRICED SERVICES TO CUSTOMERS IN 16 STATES AND THE DISTRICT OF COLUMBIA. NISOURCE OPERATES A NETWORK OF INTERSTATE PIPELINES THAT CONNECT GROWING SUPPLY AREAS TO GROWING MARKETS, FORGING KEY LINKS IN THE NISOURCE ENERGY VALUE CHAIN.



pipeline

CATHY ABBOTT
Group President
Pipeline Operations

EASILY ACCESSIBLE, MARKET-AREA STORAGE MAKES NATURAL GAS SUPPLIES AVAILABLE WHEN THEY ARE NEEDED MOST.

JOHN SHELTON
Manager, Field Services
Columbia Gas Transmission

TJ ARUFFO
Vice President
Energy Supply Services

GLEN KETTERING
President
Columbia Gas Transmission

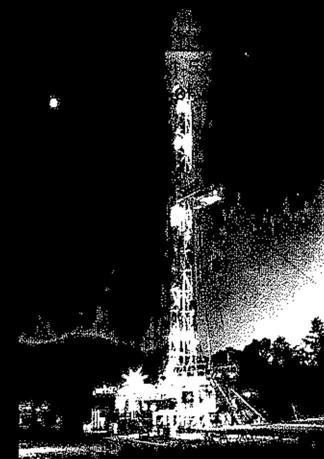
NiSource's unique network of underground reservoirs (each about a mile below the earth's surface), dispersed throughout the Northeast and Midwest, store natural gas close to major energy markets so that it is available to supplement conventional supplies and balance demand in variable markets. Combined with our extensive pipeline network, this integrated system helps increase pipeline efficiency, while providing customers with unparalleled flexibility.

In addition, NiSource's underground natural gas storage assets provide maximum flexibility in an ever-changing marketplace. By leveraging one of the largest underground storage capabilities in the nation, we not only can provide gas during times of peak demand, but also take advantage of the operational flexibility inherent in our extensive network to participate in the dynamic natural gas market throughout the year.

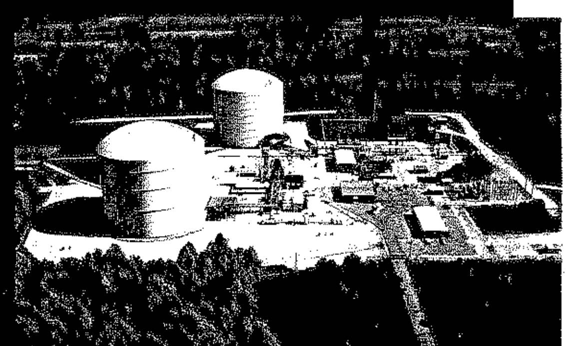
The NiSource storage network includes 670 Bcf of capacity close to our customer base. Our storage capabilities include 250 Bcf of working capacity held in 45 underground storage fields in West Virginia, Ohio, Indiana, Pennsylvania and New York. Storage contributes up to 60 percent of Columbia Transmission's peak day deliverability of 7.4 Bcf.

NiSource can use this storage capacity to help customers — primarily local distribution companies — respond rapidly to both market fluctuation and demand. Using less expensive gas from storage and refilling the storage fields when prices drop can moderate temporary spikes in gas prices. Similarly, gas can be released from storage when demand rises, or it can be injected when demand is low.

By being linked to NiSource's extensive gas transmission network, gas from storage can be moved to almost anywhere within our system. As a result, storage is an integral piece in our multi-dimensional delivery system. The ability to deliver gas from our exploration and production operations, distribution network or storage locations allows NiSource to effectively arbitrage weather and market conditions.



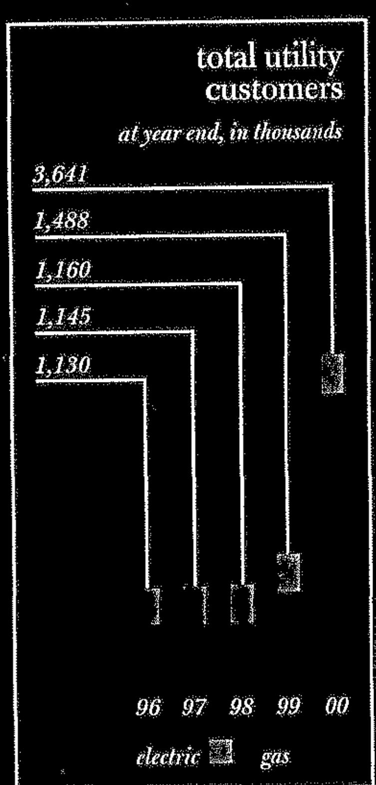
Drilling rig on a horizontal well project in the Coco storage field outside Charleston, West Virginia. Horizontal drilling is one of the many techniques that have been employed in efforts to improve the efficiency of Columbia's storage fields.



This Liquefied Natural Gas (LNG) plant near LaPorte, Ind., and others like it in the NiSource system, provide quick access to natural gas supply on peak demand days.

NiSource Energy Distribution Group

Bay State Gas Company
Columbia Gas of Kentucky
Columbia Gas of Maryland
Columbia Gas of Ohio
Columbia Gas of Pennsylvania
Columbia Gas of Virginia
Kokomo Gas and Company
Northern Indiana Fuel and Light
Northern Indiana Public Service Company
Northern Utilities, Inc.



Operating the largest gas distribution system east of the Rocky Mountains and the third largest in the United States, NiSource's energy distribution network is well positioned to capitalize on the growth in its markets, located along the nation's high-demand energy corridor.

While maintaining their focus on delivering natural gas and electricity safely and reliably, NiSource distribution companies also seek to provide greater value to 3.2 million gas customers in nine states and 430,000 electric customers in northern Indiana. As champions of choice in our markets, NiSource has pioneered programs that enable customers to lock in the price of gas as well as select their own gas supplier.

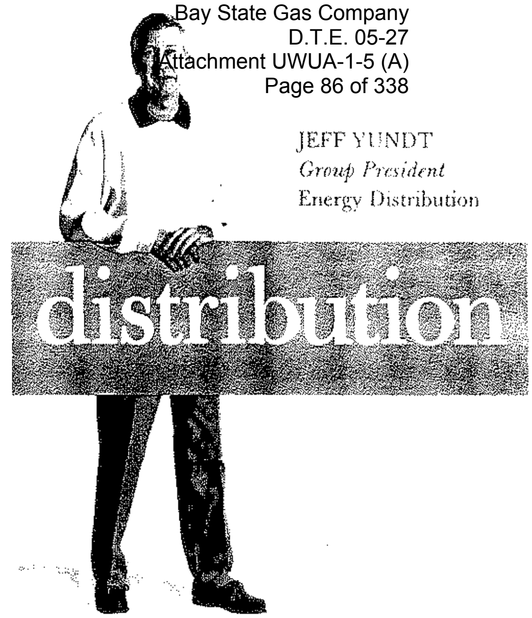
NiSource distribution companies offer further value by providing customers a variety of services and total energy solutions. By expanding successful products and services across all of our market territories, customers will have access to valued energy-related offerings from a highly trusted source. In the future, these will include gas-fired distributed generation for combined heat and power systems.

With distribution operations extending across nine states, NiSource is well positioned to create new value through diverse business environments, strong regulatory relationships, strong local brands and customer relationships.

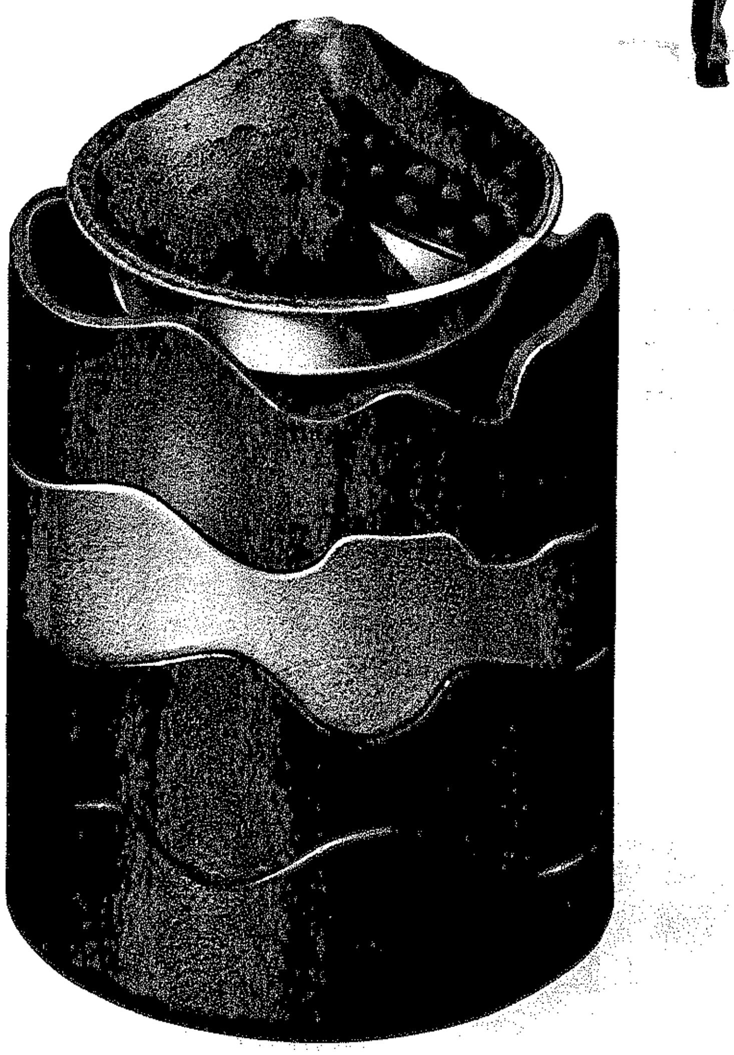
As a result:

- *The sharing of best practices among the companies can contribute to delivering top-quartile financial performance while exceeding customers' expectations.*
- *Areas with strong growth can help mitigate the impact of those experiencing weaker business conditions.*
- *Gas can be moved quickly from areas of short-term low demand to areas with greater need.*

Our distribution network doesn't deliver just natural gas and electricity. More importantly, we deliver comfort, convenience and peace of mind. Building on the trust and reputation built by our local distribution companies over the years, NiSource has committed to retain their local brands, local leadership and a commitment to the communities they serve.



JEFF YUNDT
Group President
Energy Distribution

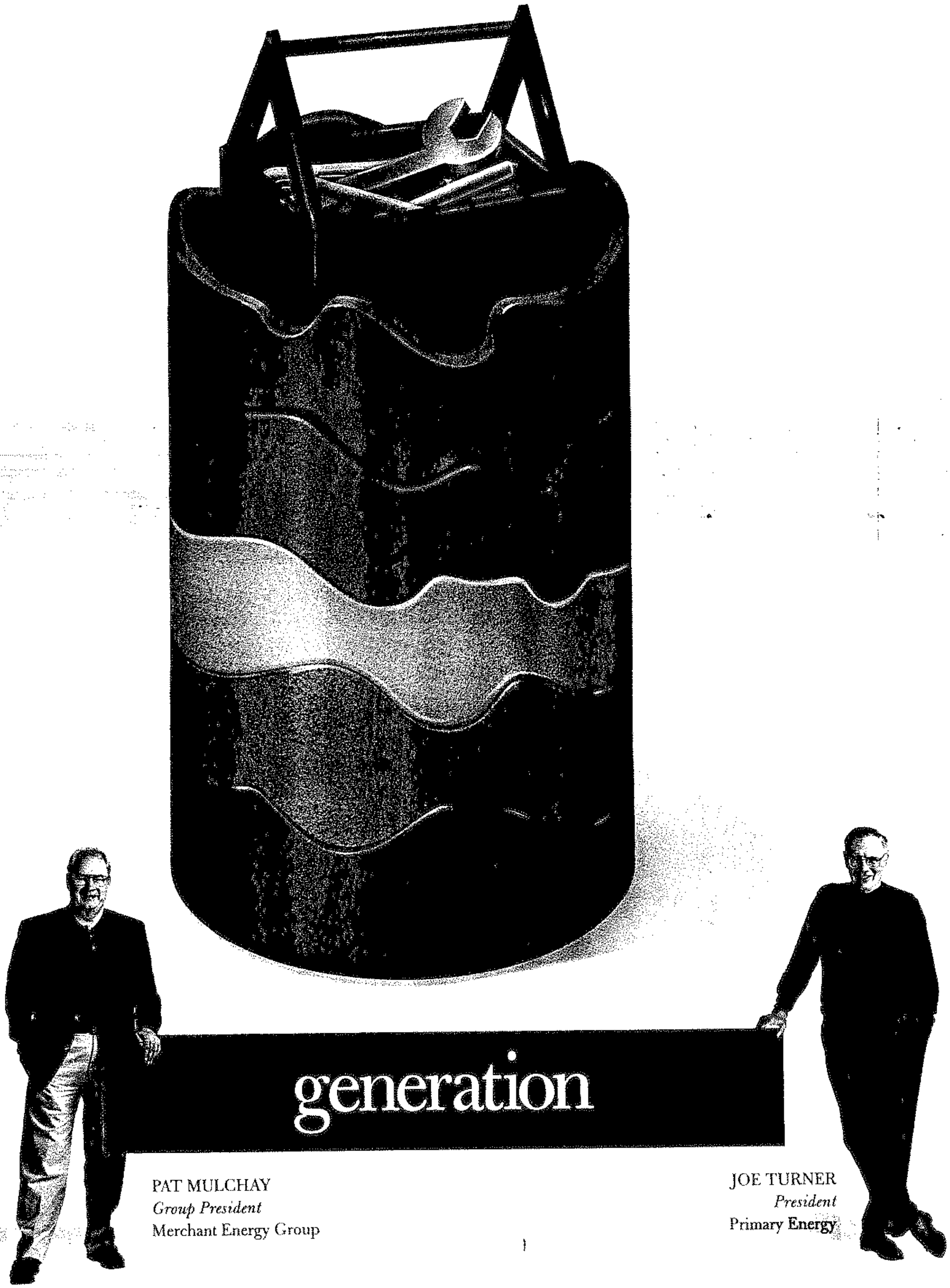


SERVING UP COMFORT AND CONVENIENCE...

ANYWAY YOU SLICE IT, CUSTOMER SERVICE, RELIABILITY AND SAFETY ARE PARAMOUNT AT NISOURCE DISTRIBUTION COMPANIES. SUPPORTED BY AN INTEGRATED EXPLORATION AND PRODUCTION, TRANSMISSION, STORAGE AND POWER-GENERATION SYSTEM, NISOURCE DISTRIBUTION COMPANIES SERVE 3.6 MILLION RESIDENTIAL, COMMERCIAL AND INDUSTRIAL CUSTOMERS IN NINE STATES.

THE RIGHT STUFF...

WHEN IT COMES TO SUPPLYING ELECTRICITY IN TODAY'S EXPANDING ENERGY MARKET, IT'S CRITICAL TO BE EQUIPPED WITH A TOOLBOX PACKED WITH THE RIGHT STUFF. NISOURCE'S CONVENTIONAL AND CUSTOMIZED POWER GENERATION ASSETS PROVIDE US WITH THE TOOLS TO BUILD ADDED FLEXIBILITY INTO MEETING POWER DEMAND WHILE ASSEMBLING NEW ENERGY SOLUTIONS FOR CUSTOMERS.



PAT MULCHAY
Group President
Merchant Energy Group

JOE TURNER
President
Primary Energy

America's technology-driven economy and consumer culture has made an ample supply of reliable electricity more important than ever. As demand for power continues to grow in NiSource's northern Indiana electric market, our mix of conventional and customized generation assets allows us to meet that demand consistently and affordably.

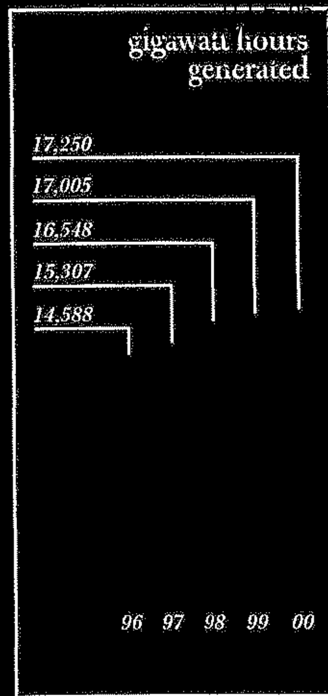
In 2000, NiSource's Northern Indiana Public Service Company (NIPSCO) power plants continued to set production records to serve a growing market. NIPSCO's four generating stations, with a capacity of almost 3,400 megawatts, are not only efficient, but also clean, using low-sulfur coal and employing multiple practices to reduce emissions.

The evolution of the wholesale power market provides NIPSCO with additional sources of power to support customer needs during peak periods. By being interconnected with five neighboring electric utilities, NIPSCO has the opportunity to purchase economical power when needed — a far less expensive option than building additional conventional generating capacity.

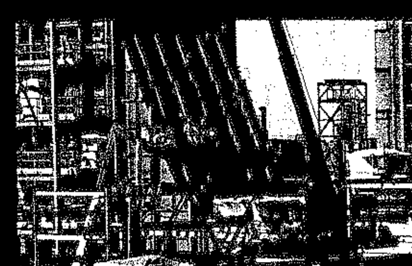
NiSource's non-regulated subsidiary Primary Energy gives us further generating flexibility. Primary Energy offers large industrial customers, such as steel mills, oil refineries and other manufacturers, cost-effective and efficient clean-energy solutions that enhance their global competitiveness. A leading developer and operator of industrial energy facilities, Primary Energy will complete its sixth major project during the third quarter of 2001.The Whiting Clean Energy project is a 525-megawatt gas-fired power plant at the BP refinery in Whiting, Ind. Primary Energy's seventh project will use by-product fuels from blast furnace operations at LTV Steel Company's manufacturing complex in East Chicago, Ind., to produce electricity.

While these projects meet the unique energy needs of each customer, they also enable NiSource to expand clean-power technologies without building significant new infrastructure at NIPSCO. Regulated generating capacity is then freed up by Primary Energy's facilities and used to supply competitively priced electricity to a growing base of power customers and increasing demand in northern Indiana.

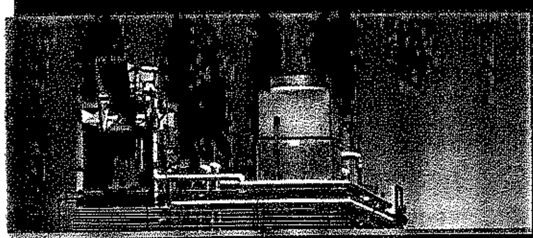
Primary Energy is also expanding its market reach to other regions of the United States and overseas through alliances with Duke Energy Corporation and Fluor Corporation.



The four Northern Indiana Public Service Company generating stations have set records in total generation in each of the past five years.

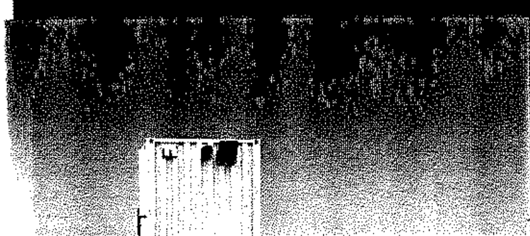


Primary Energy is constructing a cogeneration facility at BP's Whiting, Ind. refinery. This facility will generate 525 megawatts of energy from natural gas.



1999

NiSource Energy Technologies ntinues progress on the development microturbine/combined heat and power systems, with a new unit installed in December 2000 at a Walgreens store in Chesterton, Ind. The new unit (below) offers significant improvements in size, weight and performance.



2000

For much of the 20th Century, electricity fueled business expansion. Central power stations were built, transmission towers constructed, and wires strung. The pace of development depended on the availability of electricity to run the industrial plants that powered the economy.

Today, the economy is powered by an expansive service sector driven by a proliferation of technologically advanced information and manufacturing process systems. As a result, peak power demand in the U.S. has risen 25 percent since 1990, but supply capacity has increased only six percent. While demand growth has far outstripped the growth of supply, customers are also expecting more from their power supplier. Requirements for power quality and reliability have risen to "six nines" (99.9999 percent) or higher — beyond the design limit of the current power grid.

As electricity generation moves closer to the end user, power quality and reliability improve. Distributed generation products that run on natural gas, such as fuel cells and microturbines, offer a non-traditional approach to meeting the commercial demands of a market-driven, more customer-oriented economy. Located at or near the point of consumption, distributed generation units provide customers with ultimate energy choice and flexibility.

NiSource installed a gas-fired microturbine/combined heat and power (CHP) system in 1999 as a demonstration unit at a Walgreens drug store in Indiana. In February 2001, after 18 months of continuous operation, the unit was replaced by the next generation — a far smaller, more efficient system capable of a bumpless isolation from the power grid when the grid goes down. We believe the current Walgreens system to be the most efficient and first of its kind in the world.

NiSource Energy Technologies (NET), our business focusing on new energy for the new economy, plans to begin marketing a microturbine-based CHP package by 2002. NET also plans to continue investment in other energy technologies, including fuel cells.

NET operates as a catalyst in the convergence of gas and electricity, supporting the growth of other NiSource companies. Building from NiSource's strength in the electricity business and in providing power solutions for heavy industry, NET will develop new customer solutions fueled by natural gas. In developing solutions for NiSource's 3.2 million gas customers, NET will provide our energy distribution, merchant energy and gas transmission segments with additional gas throughput and better utilization of gas supply and distribution assets.

A BRIGHTER FUTURE...

WHILE THE FIREFLY IS WELL KN[illegible]VING ITS OWN LIGHT SOURCE, NEW TECHNOLOGIES ARE BRINGING REAL CHOICE, RELIABILITY AND THE SAME TYPE OF INDEPENDENCE TO ENERGY CONSUMERS.

distributed generation

MARK WYCKOFF
President
NiSource Energy Technologies

TARGETING OPPORTUNITIES...

NISOURCE'S VERTICALLY INTEGRATED ASSETS CONCENTRATED WITHIN THE NATION'S PREMIER ENERGY MARKET OFFER TREMENDOUS OPPORTUNITIES FOR CUSTOMER SOLUTIONS ACROSS THE ENERGY VALUE CHAIN. THE ABILITY TO COMBINE AND COORDINATE THOSE ASSETS IN WAYS THAT CREATE ADDED VALUE IS AT THE CORE OF OUR BUSINESS.

MIKE CALDERONE
Chief Operating Officer
EnergyUSA-TPC

PAT MULCHAY
Group President
Merchant Energy Group

JIM CLARKE
Senior Vice President
Risk Management and Capital Allocation

DON THERIAULT
Manager
Power Management and Trading
NIPSCO

In a dynamic marketplace where the landscape can change quickly, skill, timing and the right assets are everything.

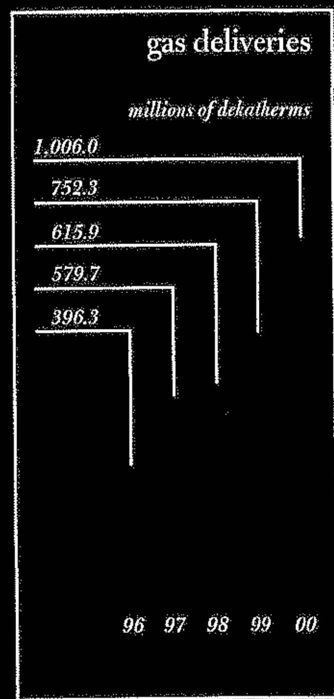
With gas exploration and production, pipeline operations in 16 states, 670 Bcf of gas storage, distribution assets in nine states, electric generation and on-site cogeneration, NiSource's assets create an energy value chain providing tremendous optionality opportunities.

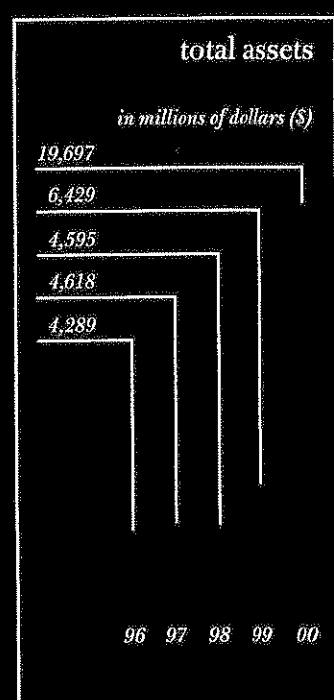
We define optionality as the value derived from ownership or control of an asset by having the ability to employ it in advantageous market environments. To capitalize on optionality, a company must use its skills to assess the capability of an asset and its adaptability to various market conditions to the benefit of both customers and shareholders.

NiSource's expanded geographic footprint, access to multiple fuels in multiple markets, involvement in the development of new energy sources and existing trading capacity provide the flexibility to fit pieces of the business together in numerous combinations to maximize value in alignment with the company's risk management criteria.

Our Merchant Energy Group is at the heart of our optionality efforts. Consisting of NiSource's electric production and transmission, gas exploration and production, gas supply, and energy trading and marketing, the Merchant group uncovers opportunities in the marketplace and coordinates the activities of NiSource businesses to supply what the market demands at the right time and the right price.

Partnering with our Risk Management function, which sets the parameters for acceptable levels of risk, the Merchant Group has developed a process for consistent and efficient decision making to use our exceptional assets to their full potential.





NiSource Business Services Information Technology (IT) has begun an insourcing project of all IT services currently provided by outside vendors. In excess of $20 million in savings can be attributed to this project.

With a focus on providing high-quality service at a competitive cost, NiSource's Business Services operation is an efficient platform that gives the company's operating subsidiaries a competitive advantage in the marketplace.

By combining in one location services such as payroll, benefits administration, accounting, information technology infrastructure and procurement — functions and activities that are common across all subsidiaries — the company can streamline those operations, deliver greater value to internal customers by applying market-tested best practices and optimize economies of scale.

The scope and scale of the NiSource-Columbia merger required the new company to rethink its existing systems and take fresh approaches to integrating common services. Teamwork and effort have already paid off in the Information Technology (IT) area. NiSource had long outsourced its help desk, data center, application support and other technical-support functions to an outside vendor. Columbia, on the other hand, provided those services in-house. After a thorough analysis of business requirements and skill sets within the combined company, Business Services concluded that providing technology services internally would reduce costs and enhance service. The company is aggressively moving forward to complete the insourcing process by May 2001.

Further opportunities for significant savings and value lie in leveraging the company's considerable size by centralizing our purchasing activities. Business Services' Supply Chain organization is responsible for the procurement process for everything from pencils and computers to pipes and transformers, allowing operating companies to concentrate on their core business while reducing their total cost for materials and services. Among other activities, Supply Chain Services is implementing an Internet-based supply-ordering and payment system, standardizing materials throughout the company to optimize value and right-sizing the company's current fleet of vehicles.

While the obvious advantage of the Business Services model is keeping our costs in line, its real long-term value lies in improving quality, efficiency and consistency within our growing company.

business services

STEVE SMITH
President
Business Services

PULLING INTO HIGH GEAR...

AT THE CENTER OF ANY MACHINE THAT OPERATES AT PEAK PERFORMANCE IS A SET OF WELL-OILED GEARS. NISOURCE'S BUSINESS SERVICES GROUP PROVIDES THE SAME KIND OF BEHIND-THE-SCENES SUPPORT TO THE COMPANY'S BUSINESS UNITS, SO THAT THEY CAN FOCUS ON THEIR BUSINESS, AND THE ENTIRE ENTERPRISE CAN RUN LIKE A TOP.


New York
Pennsylvania
Ohio
Indiana
West Virginia
Maryland
New Jersey
Delaware
Kentucky

building momentum

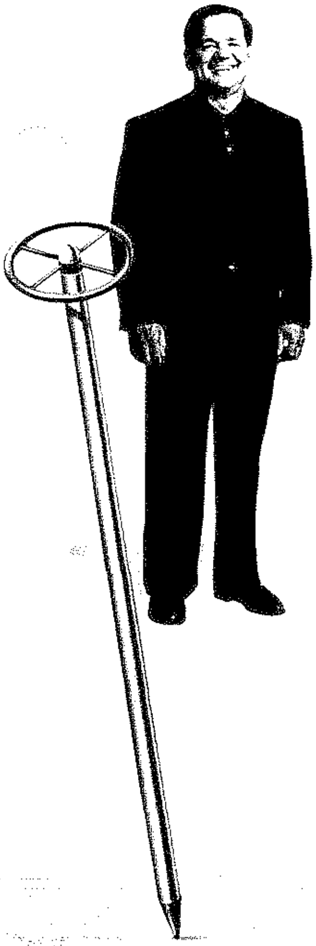
Exploration and production.
Pipelines.
Storage.
Energy distribution.
Electric generation and transmission.
Distributed generation.
Energy marketing and trading.

They could be an assortment of individual pieces or they could be an integrated system focused on the market.

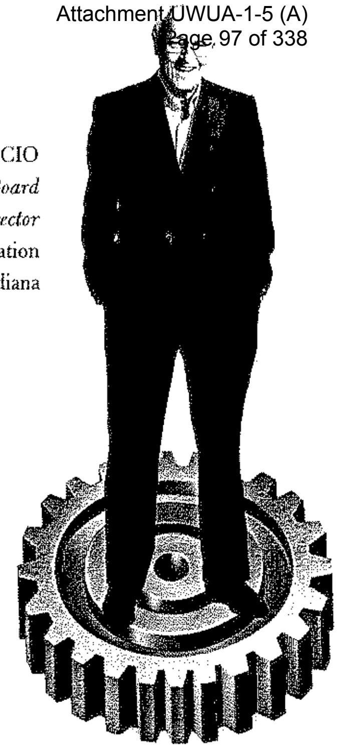
NiSource has brought the pieces together to create a new company — the premier competitor in the nation's high-demand energy corridor.

The right combination of assets, the right geography, the right set of skills.

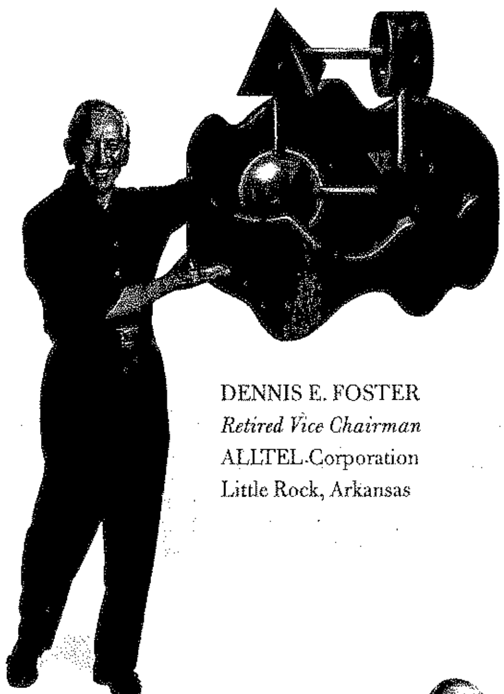
Like the energy marketplace itself, a stronger, more powerful NiSource is gaining momentum and delivering new dimensions of value to customers and shareholders.



GARY L. NEALE
Chairman, President and
Chief Executive Officer
NiSource Inc.
Merrillville, Indiana



ARTHUR J. DECIO
Chairman of the Board
and Director
Skyline Corporation
Elkhart, Indiana



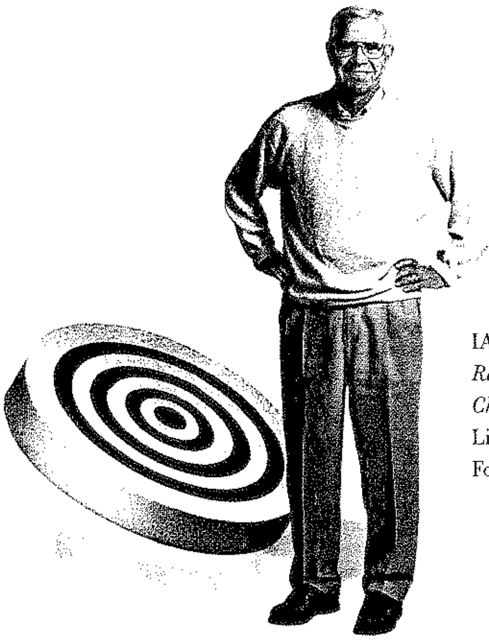
DENNIS E. FOSTER
Retired Vice Chairman
ALLTEL Corporation
Little Rock, Arkansas

DR. STEVEN C. BEERING
President Emeritus
Purdue University
West Lafayette, Indiana

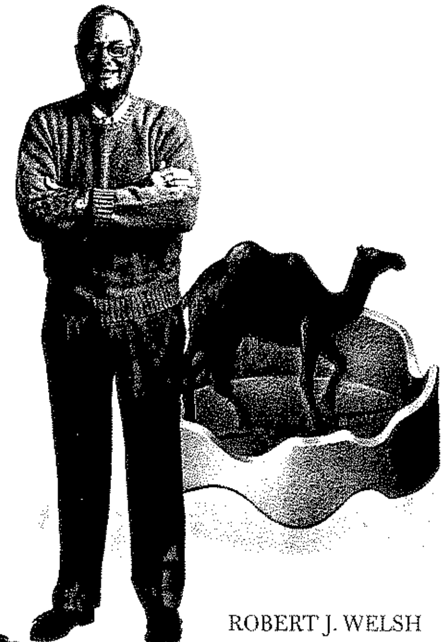
JOHN W. THOMPSON
Chairman, President and
Chief Executive Officer
Symantec Corp.
Cupertino, California

JAMES T. MORRIS
Chairman,
Chief Executive Officer
IWC Resources Corporation
Indianapolis, Indiana

board of directors



IAN M. ROLLAND
Retired Chairman and
Chief Executive Officer
Lincoln National Corporation
Fort Wayne, Indiana



ROBERT J. WELSH
Chairman and
Chief Executive Officer
Welsh, Inc.
Merrillville, Indiana

ROGER A. YOUNG
Chairman
Bay State Gas Company
Westborough, Massachusetts

DR. CAROLYN Y. WOO
Martin J. Gillen Dean
and Ray and Milann Siegfried
Professor of Management
University of Notre Dame
Mendoza College of Business
Notre Dame, Indiana

STEPHEN P. ADIK
Vice Chairman
NiSource Inc.
Merrillville, Indiana

CONTENTS

FINANCIAL PERFORMANCE HIGHLIGHTS

	2000	1999	1998
	(in millions, except per share data)		
Total Assets	**19,696.8**	6,428.6	4,595.4
Gross Revenues	**6,030.7**	3,273.5	2,843.9
Cost of Sales	**4,082.7**	1,880.8	1,691.3
Total Net Revenues	**1,948.0**	1,392.7	1,152.6
Operating Expenses	**1,380.2**	954.8	749.9
Operating Income	**567.8**	437.9	402.7
Income from Continuing Operations	**147.1**	153.9	188.6
Income from Discontinued Operations (net of tax)	**9.8**	6.5	5.3
Net Income	**156.9**	160.4	193.9
Basic earnings per share ($)			
Continuing operations	**1.09**	1.24	1.56
Income from discontinued operations	**0.07**	0.05	0.04
Basic earnings per share	**1.16**	1.29	1.60
Diluted earnings per share ($)			
Continuing operations	**1.08**	1.22	1.55
Income from discontinued operations	**0.07**	0.05	0.04
Diluted earnings per share	**1.15**	1.27	1.59
Basic average common shares outstanding (millions)	**134.5**	124.3	120.8
Year-end common shares outstanding (millions)	**205.6**	124.1	117.5

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource's plans, proposed dispositions, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially. Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, increased competition in deregulated energy markets, weather, fluctuations in supply and demand for energy commodities, successful consummation of proposed acquisitions and dispositions, growth opportunities for NiSource's regulated and nonregulated businesses, dealings with third parties over whom NiSource has no control, actual operating experience of acquired assets, NiSource's ability to integrate acquired operations into its operations, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions and counter-party credit risk, many of which are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

ACQUISITION OF COLUMBIA ENERGY GROUP

On November 1, 2000, NiSource completed its acquisition of Columbia Energy Group (Columbia) for an aggregate consideration of approximately $6 billion, with 30% of the consideration paid in common stock and 70% of the consideration paid in cash and Stock Appreciation Income Linked Securities,℠ referred to as SAILS,℠ which are units consisting of a zero coupon debt security coupled with a forward equity contract for NiSource shares. NiSource also assumed approximately $2 billion of Columbia debt. As a result of the Columbia acquisition, NiSource is a super-regional energy holding company that provides natural gas, electricity and other products and services to 3.6 million customers located within the energy corridor that runs from the Gulf Coast through the Midwest to New England.

CONSOLIDATED REVIEW

For the twelve months ended December 31, 2000, NiSource reported income from continuing operations of $147.1 million, or $1.09 per share, compared to $153.9 million, or $1.24 per share, in 1999. All per share amounts are reflected on basic common shares. After adjusting for non-recurring items as reflected on the table below, income for continuing operations was $253.9 million, or $1.89 per share, in 2000 and $172 million, or $1.38 per share, in 1999. In the fourth quarter of 2000, NiSource issued approximately 72.5 million common shares to shareholders of Columbia as part of the consideration for the acquisition of Columbia and an additional 11.5 million shares for cash, the proceeds of which were used to repay a portion of the short-term borrowings incurred as a result of the acquisition.

The results for 2000 and 1999 are not directly comparable, due to the Columbia acquisition completed on November 1, 2000. Results for 2000 included Columbia's net income for November and December of approximately $90 million. Results were favorably impacted by improved results from EnergyUSA, higher weather-related natural gas deliveries and electric sales and a $23.8 million after-tax gain on the sale of NiSource's interests in Market Hub Partners, L.P. (MHP) in September 2000. Results were negatively impacted by approximately $67.4 million of costs in 2000 and $8.1 million in 1999 related to the Columbia merger and $63.2 million of expense in 2000 and $18.3 million for 1999 for the write-down of certain assets. In 1999, a favorable adjustment of $8.3 million after-tax was recorded for an insurance settlement associated with clean-up activities for manufactured gas plant sites. Additional expense was also incurred in the current period related to restructuring activities and the amortization of goodwill and higher interest and facility fees on borrowings.

*·ome from Continuing Operations before
·on-recurring Items*

Twelve Months Ended December 31	*2000*	*1999*
	(in millions except per share amounts)	
Income from Continuing Operations as Reported	**$147.1**	$153.9
Adjustments for Non-recurring Items:		
• Costs related to Columbia merger	**67.4**	8.1
• Write-down of assets	**63.2**	18.3
• Gain on sale of MHP	**(23.8)**	—
• Insurance settlement	—	(8.3)
Total Adjustments for Non-recurring Items	**106.8**	18.1
Income from Continuing Operations after Adjustments	**$253.9**	$172.0
Earnings Per Basic Common Share	**$ 1.89**	$ 1.38

Income from continuing operations for 1999 of $153.9 million decreased $34.7 million from 1998. The 1999 and 1998 periods are not directly comparable due to the acquisition of Bay State Gas Company (Bay State) in February 1999 and EnergyUSA-TPC Corp (TPC) in April 1999. As natural gas businesses, Bay State and TPC record a substantial portion of their revenues during the winter heating season. The timing of these acquisitions, the seasonal nature of these operations and a milder-than-normal heating season resulted in lower earnings ·r the year. Income from continuing operations for 1999 ·lected stronger operating results from NiSource's electric business along with continued customer growth. Results included after-tax charges of $8.1 million in connection with NiSource's acquisition of Columbia. NiSource also recorded additional expense in 1999 associated with adverse economic conditions that impacted equity investments, the most significant of which was related to a charge against the carrying value of the oil and gas properties due to lower prices, and the decision to abandon a number of non-core businesses and facilities.

As a condition of approving the acquisition of Columbia, the Securities and Exchange Commission required NiSource to divest its water operations by November 2003. Consequently, these operations are currently being prepared for sale and are reflected in discontinued operations. These discontinued operations resulted in after-tax income of $9.8 million for 2000, $6.5 million in 1999 and $5.3 million for 1998. Taking into account income from continuing operations and results from discontinued operations, NiSource reported 2000 net income of $156.9 million, or $1.16 per share, $160.4 million, or $1.29 per share for 1999 and $193.9 million, or $1.60 per share for 1998.

Net Revenues

Net revenues for 2000 of $1,948 million, increased $555.3 ·illion over 1999 due in part to $433.1 million from the inclusion of Columbia's operations for the last two months of 2000 and an increase of $41.4 million for the full year effect of Bay State. Also contributing to the increase were improved margins on electric and wholesale natural gas sales, gas and power trading activities and increased sales to commercial and industrial customers.

For 1999, net revenues were $1,392.7 million, an increase of $240.1 million over the year earlier due largely to $161.2 million of net revenues from Bay State and increased gas deliveries to residential and commercial customers reflecting colder weather during 1999. In addition, net revenues improved due to increased electric margins on wholesale sales, increased power trading activity and increased electric sales to residential and commercial customers, as a result of warmer weather in the third quarter of 1999. These improvements were tempered by reduced deliveries to industrial customers.

Expenses

Operating expenses of $1,380.2 million for 2000 increased $425.4 million over 1999. Operation and maintenance expense was $250.7 million higher due primarily to the inclusion of Columbia's results for November and December 2000 and the full year effect of Bay State. Higher expense in 2000 compared to 1999 was also attributable to costs related to restructuring activities that were implemented in 2000 to improve efficiencies and higher employee related costs. In addition, $65.8 million of expense was recorded in 2000 to reflect losses on the sale of certain assets. In 1999, expense was reduced $13 million due to a favorable insurance adjustment related to manufactured gas plant site clean-up costs. Depreciation, amortization and depletion expense increased $79.1 million reflecting Columbia's operations for the last two months of 2000, the amortization of goodwill associated with the Columbia acquisition and the full year effect of Bay State as well as additional plant in service for the other operations. Taxes other than income were $43.1 million higher also primarily due to the inclusion of Columbia for the last two months of 2000 and the full year effect of Bay State.

Operating expenses in 1999 of $954.8 million increased $204.9 million over 1998, of which $127.3 million was due to the acquisition of Bay State in February 1999. Also increasing operating expenses were generally higher operating costs for NiSource's other operations, increased employee related costs and increased expenses for distributed generation and fuel cell research and development. These higher costs were partially offset by a $13 million insurance settlement in 1999 related to clean-up costs for a manufactured gas plant site. Operation and maintenance expenses increased $136.9 million over 1998 due in large part to the inclusion of $79.1 million of expenses related to ten months of Bay State's operations in 1999. Depreciation, amortization and depletion expenses increased $53.2 million in 1999 over 1998, primarily from the inclusion of $36.2 million of depreciation and amortization for Bay State and increased depreciation expense due to additional plant in service. Taxes other than income increased $14.8 million in 1999 compared to 1998 primarily as the result of the Bay State acquisition, which added $12 million of other tax expense in 1999.

Other Income (Deductions)

Twelve Months Ended December 31, (in millions)	*2000*	*1999*	*1998*
Interest expense, net	**$(304.5)**	$(155.4)	$(120.2)
Minority interests	**(20.4)**	(17.7)	(0.7)
Preferred stock dividends	**(7.8)**	(8.1)	(8.3)
Other, net	**42.1**	(20.6)	9.5
Total Other Income (Deductions)	**$(290.6)**	$(201.8)	$(119.7)

Other Income (Deductions) in 2000 reduced income $290.6 million compared to a reduction in income of $201.8 million in 1999. Interest expense, net increased $149.1 million over 1999 due to additional borrowings incurred as a result of the acquisition of Columbia, the full year effect of interest on the $160 million in Puttable Reset Securities (PURS) issued in September 1999 and increased short-term borrowings. Also increasing expense were costs associated with facility fees and the ineffective component of interest rate hedges that were charged to interest expense. See Note 8 of the Notes to Consolidated Financial Statements for additional information. In 2000, dividends paid on Company-obligated mandatorily redeemable preferred securities was $20.4 million, an increase of $2.7 million from 1999, which reflects the full year effect in 2000, of these securities which were issued in February 1999. Other, net, increased $62.7 million primarily reflecting a $51.9 million gain on the sale of NiSource's indirect interests in MHP in September 2000. In 1999, a $16.5 million non-recurring charge was recorded associated with the carrying value of oil and gas properties and a loss that resulted from a decision to abandon certain businesses and facilities that were not consistent with NiSource's strategic direction.

Other Income (Deductions) reduced income in 1999 by $201.8 million and in 1998 by $119.7 million. Interest expense, net for 1999 of $155.4 million increased $35.2 million over 1998. This increase reflects the inclusion of interest charges for Bay State of $19 million, interest on the September 1999 issuance of PURS and increased interest expense on additional short-term borrowings. In 1999, minority interests increased $17 million due to dividends paid on NiSource-obligated mandatorily redeemable preferred securities issued in February 1999. Other, net decreased $30.1 million in 1999 over 1998 primarily reflecting the 1999 charge against the carrying value of the oil and gas properties and the loss resulting from the abandonment of certain assets, as discussed above.

Income Taxes

Income taxes increased $47.9 million in 2000 over 1999 and decreased $12.2 million in 1999 from 1998, primarily as a result of changes in pre-tax income and timing differences for certain deferred tax issues. The effective income tax rate was 46.9%, 34.8% and 33.4% in 2000, 1999 and 1998, respectively. See Note 9 of the Notes to Consolidated Financial Statements for additional information.

Discontinued Operations

Discontinued operations reflected after-tax income of $9.8 million, or $0.07 per share, in 2000 compared to after-tax income of $6.5 million, or $0.05 per share, in 1999 and $5.3 million, or $0.04 per share in 1998. Income on discontinued operations reflects results for NiSource's water operations.

LIQUIDITY AND CAPITAL RESOURCES

Generally, cash flow from operations has provided sufficient liquidity to meet current operating requirements. A significant portion of NiSource's operations, most notably in the gas and electric distribution businesses, are subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. In the summer months, cash receipts for electric sales normally exceed requirements. During other periods of the year, cash on hand, together with external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas.

As mentioned previously, on November 1, 2000, NiSource completed the acquisition of Columbia for approximately $6 billion, plus the assumption of approximately $2 billion of Columbia debt. The acquisition was accomplished through the creation of a new holding company. Each NiSource common share was exchanged for one common share of the new holding company. Each Columbia share was exchanged for $70 in cash plus $2.60 principal amount of a unit issued by the new holding company, referred to as SAILS[SM] that consist of a zero coupon debt security coupled with a forward equity contract or, at the election of the Columbia shareholder, 3.04414 shares in new holding company stock, up to 30% of the outstanding shares of Columbia. It was necessary to prorate the stock elections because the elections were made for more than 30% of Columbia's outstanding shares.

To complete the acquisition of Columbia, NiSource, through its NiSource Finance Corp. subsidiary, arranged a $6 billion 364-day acquisition facility with a syndicate of banks. On November 1, 2000, the closing date of the acquisition, the facility supported $4.1 billion of commercial paper issued to finance the Columbia acquisition. At December 31, 2000, the facility supported $1.1 billion of commercial paper issued to finance the Columbia acquisition.

Subsequent to the November 1, 2000 Columbia acquisition, NiSource reduced its acquisition related commercial paper borrowings through the issuance of $2.65 billion of privately aced notes, completed on November 10, 2000. This issuance included $750 million of three-year notes paying a 7.5% coupon and maturing on November 15, 2003, $900 million of five-year notes paying a 7.625% coupon and maturing on November 15, 2005, and $1 billion of ten-year notes paying a 7.875% coupon and maturing on November 15, 2010. Subsequently, an additional $150 million of five-year notes were issued, bearing a 7.625% coupon and maturing on November 15, 2005.

On November 27, 2000, NiSource issued 11.5 million new shares of NiSource common stock at an offering price of $25.25 per share. The $280.9 million of net proceeds were used to reduce borrowings under the NiSource Finance Corp. acquisition credit facility.

NiSource's Columbia subsidiary may borrow under an $850 million 364-day revolving credit agreement that expires on October 10, 2002. At December 31, 2000, the facility supported $521.4 million of commercial paper borrowings that had a weighted average interest rate of 7.76%.

NiSource's financing subsidiary, NiSource Capital Markets, Inc. (Capital Markets) may borrow under a $200 million 364-day revolving credit agreement that expires on July 5, 2001. At December 31, 2000, the facility supported $171.3 million of commercial paper borrowings that had a weighted average interest rate of 7.86%. Capital Markets also maintains multiple uncommitted lines of credit totaling $203 million. At December 31, 2000, there were $188 million of borrowings outstanding under these uncommitted lines of credit with a weighted average interest rate of 7.96%.

NiSource's Northern Indiana Public Service Company (Northern Indiana) subsidiary may borrow under a $200 million 364-day revolving credit facility that expires in September 2001. At December 31, 2000, the facility supported $196.2 million of commercial paper borrowings that had a weighted average interest rate of 7.03%. Northern Indiana also maintains multiple uncommitted lines of credit totaling $178 million. At December 31, 2000, there were $174.9 million of borrowings outstanding under these uncommitted lines of credit with a weighted average interest rate of 7.70%.

NiSource's Bay State subsidiary may borrow under two separate committed lines of credit totaling $115 million of which $55 million was outstanding at December 31, 2000, with a weighted average interest rate of 7.38%. At December 31, 2000, the committed lines of credit supported $110 million of commercial paper borrowings that had a weighted average interest rate of 7.74%.

NiSource is in the process of arranging a new $2.5 billion revolving credit facility with a syndicate of banks for future working capital requirements. The new facility will refinance and consolidate essentially all of NiSource's existing short-term credit facilities as discussed above, into one credit facility through its NiSource Finance Corp. subsidiary. Management expects to have this new facility in place by the end of the first quarter of 2001.

As of December 31, 2000, and December 31, 1999, $2,078.8 million and $299.6 million of commercial paper was outstanding, respectively. The weighted average interest rate on commercial paper outstanding as of December 31, 2000, was 7.44%. In addition, NiSource had notes payable of $417.9 million and $351.8 million outstanding at December 31, 2000, and December 31, 1999, respectively, at a weighted average interest rate of 7.78%.

In September 1999, Capital Markets issued $160 million of PURS in an underwritten public offering. The PURS were unsecured debentures of Capital Markets and ranked equally with all other unsecured and un-subordinated debt of Capital Markets. On September 28, 2000, all $160 million PURS were redeemed by NiSource at par.

As of December 31, 2000, NiSource had $128.5 million of standby letters of credit outstanding. At December 31, 1999, NiSource did not have any letters of credit outstanding. See Note 15 of the Notes to the Consolidated Financial Statements for more information.

Capital Expenditures

The table below reflects actual capital expenditures by segment for 2000 and 1999 and an estimate for year 2001:

	2001	*2000*	*1999*
		(in millions)	
Gas Distribution	$208.0	$138.3	$145.2
Electric	120.0	132.2	134.0
Gas Transmission and Storage	132.0	50.3	—
Exploration and Production	132.0	22.7	—
Energy Marketing	1.0	1.2	0.7
Other Products and Services	22.0	21.1	14.0
Corporate	35.0	—	—
Total	$650.0	$365.8	$293.9

For 2000, capital expenditures were $365.8 million, an increase of $71.9 million over 1999. The increase includes approximately $126.4 million for Columbia's capital expenditures for the last two months of 2000, partially offset by the elimination of the NiSource program to address the year 2000 issue. The gas distribution subsidiaries' program includes investments to extend service to new areas and develop future markets, as well as expenditures to ensure safe, reliable and improved service. The electric program includes projects that will increase generating capacity, and enhance transmission capacity while improving, replacing and upgrading equipment to ensure safe and reliable service to a growing customer base. The largest portion of the gas transmission and storage segment's investments are made to ensure the safety and reliability of the pipelines and for market expansion activities. The exploration and production segment's capital expenditures are primarily for drilling and production activities.

For 2001, NiSource's estimated capital expenditure program is $650 million, approximately $284.2 million higher than the 2000 program. This increase is primarily due to the inclusion of a full year of capital expenditures for Columbia.

Future commitments, with respect to the construction program, are expected to be met through internally generated funds.

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS

Risk is an inherent part of NiSource's energy businesses and activities. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal risks involved in NiSource's energy businesses: commodity market risk, interest rate risk and credit risk. Risk management at NiSource is a multi-faceted process with independent oversight that requires constant communication, judgment and knowledge of specialized products and markets. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the energy business, NiSource's risk management policies and procedures continue to evolve and are subject to ongoing review and modification.

NiSource is exposed to risk through its various business activities, including trading risks and non-trading risks. The non-trading risks to which NiSource is exposed include interest rate risk and commodity price risk of its subsidiaries and certain gas marketing activities. The market risk resulting from trading activities consists primarily of commodity price risk. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps. Risk management at NiSource is defined as the process by which the organization ensures that the risks to which it is exposed are the risks to which it desires to be exposed to achieve its primary business objectives. NiSource employs various analytic techniques to measure and monitor its market risks, including value-at-risk (VaR) and instrument sensitivity to market factors. VaR represents the potential loss or gain for an instrument or portfolio from adverse changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Currently, commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since current regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. As the utility industry undergoes deregulation, however, these operations may be providing services without the benefit of the traditional rate-making process and, therefore, will be more exposed to commodity price risk. Additionally, NiSource enters into certain sales contracts with customers based upon a fixed sales price and varying volumes, which are ultimately dependent upon the customer's supply requirements. NiSource utilizes derivative financial instruments reduce the commodity price risk based on modeling techniques to anticipate these future supply requirements.

Subsidiaries in NiSource's exploration and production segment are also exposed to market risk due primarily to fluctuations in commodity prices. In order to help minimize this risk, NiSource has adopted a policy that provides for commodity hedging activities to help ensure stable cash flow, favorable prices and margins. Financial instruments authorized for use by NiSource for hedging include futures, swaps and options.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements and lines of credit. These instruments have interest rates that are indexed to short-term market interest rates. At December 31, 2000, and December 31, 1999, the combined borrowings outstanding under these facilities totaled \$2,496.7 million and \$651.3 million, respectively. Based upon average borrowings under these agreements during 2000 and 1999, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by \$15.7 million and \$4.9 million for the twelve months ending December 31, 2000, and December 31, 1999, respectively.

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. In sales and trading activities, credit risk arises because of the possibility that a counterparty will not be able or willing to fulfill its obligations on a transaction on or before settlement date. In derivative activities, credit risk arises when counterparties to derivative contracts, such as interest rate swaps, are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments and standby letters of credit and guarantees. Current credit exposure includes the positive fair value of derivative instruments. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analyses of market prices. In determining exposure, NiSource considers collateral and master netting agreements, which are used to reduce individual counterparty risk.

Trading Risks

NiSource employs a VaR model to assess the market risk of its energy trading portfolios. Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource estimates the one-day VaR across all trading groups that utilize derivatives using either Monte Carlo simulation or iance/covariance at a 95% confidence level. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was $0.8 million, $2.7 million and effectively zero, respectively, at December 31, 2000. The daily VaR for the gas trading portfolio on an average, high and low basis was $2.3 million, $8.1 million and $0.5 million at December 31, 2000, respectively. NiSource implemented a VaR methodology in 1999 to introduce additional market sophistication and to recognize the developing complexity of its businesses.

See Consolidated Statement of Long-Term Debt for additional information related to NiSource's long-term debt outstanding and "Fair Value of Financial Instruments" in Note 17 of the Notes to the Consolidated Financial Statements for current market valuation of long-term debt. Refer to "Summary of Significant Accounting Policies — Accounting for Risk Management Activities" and "Risk Management Activities" in Notes 2Q and 8, respectively, of the Notes to the Consolidated Financial Statements for further discussion of NiSource's risk management.

OTHER INFORMATION

Presentation of Segment Information
As a result of the recent acquisition of Columbia, beginning with this report, NiSource revised its presentation of primary business segment information. Columbia's gas transmission and storage and exploration and production businesses are now reported as business segments of NiSource. Columbia's gas distribution operations have been merged with NiSource's gas distribution business. Other products and services develop unregulated power projects as well as other energy-related businesses. Prior periods have been restated to reflect these changes.

Competition
The regulatory environment applicable to NiSource's rate-regulated subsidiaries continues to undergo fundamental changes. These changes have previously had, and will continue to have, an impact on NiSource's operations, structure and profitability. At the same time, competition within the energy industry will create opportunities to compete for new customers and revenues. Management has taken steps to become more competitive and profitable in this changing environment. These initiatives include partnering on energy projects with major industrial customers, providing its customers with increased choice for new products and services, acquiring companies that increase NiSource's scale of operations and establishing subsidiaries that develop new energy-related products for residential, commercial and industrial customers, including the development of distributed generation technologies.

GAS DISTRIBUTION OPERATIONS

NiSource's natural gas distribution operations (Gas Distribution) serve more than 3.2 million customers in 9 states. Through its wholly owned subsidiary, Columbia, NiSource owns five distribution subsidiaries that provide natural gas to approximately 2.1 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky and Maryland. NiSource also distributes natural gas to approximately 751,000 customers in northern Indiana through three subsidiaries: Northern Indiana, Kokomo Gas and Fuel Company and Northern Indiana Fuel and Light Company, Inc. Additionally, NiSource's subsidiary, Bay State and its subsidiary Northern Utilities, Inc., distribute natural gas to more than 320,000 customers in areas of Massachusetts, Maine, and New Hampshire.

Regulatory Matters
the Federal level, gas industry deregulation began in the ..d-1980s when the Federal Energy Regulatory Commission (FERC) required interstate pipelines to provide nondiscriminatory transportation services pursuant to unbundled rates. This regulatory change permitted large industrial and commercial customers to purchase their gas supplies either from a local distribution company (LDC) or directly from competing producers and marketers, which would then use the LDC's facilities to transport the gas. More recently, the focus of deregulation in the gas industry has shifted to retail customers at the state level.

NiSource pursues initiatives that give retail customers the opportunity to purchase natural gas directly from marketers and to use Gas Distribution's facilities for transportation services. These opportunities are being pursued through regulatory initiatives in all of its jurisdictions. Once fully implemented, these programs would reduce Gas Distribution's commodity sales function and provide all customer classes with the opportunity to obtain gas supplies from alternative merchants. As these programs expand to all customers, regulations will have to be implemented to provide for the recovery of transition capacity costs and other transition costs incurred by a utility serving as the supplier of last resort if the marketing company cannot supply the gas. Transition capacity costs are created as customers enroll in these programs and purchase their gas from other suppliers, leaving the Gas Distribution subsidiaries with pipeline capacity it has contracted for, but no longer needs. The state commissions in jurisdictions served by Gas Distribution are at various stages in addressing these issues and other transition considerations. Gas Distribution is currently recovering, or has the opportunity to recover, the costs resulting from the unbundling of its services and believes that most of such future costs and costs resulting from being the supplier of last resort will be mitigated or recovered.

In December 1999, the Public Utilities Commission of Ohio (PUCO) approved a request from Columbia Gas of Ohio, Inc. (Columbia of Ohio) that extends Columbia of Ohio's Customer CHOICE℠ program through October 31, 2004, freezes base rates through October 31, 2004, and resolves the issue of transition capacity costs. Under the agreement, Columbia of Ohio would assume total financial risk for mitigation of transition capacity costs at no additional cost to customers. Columbia of Ohio has the opportunity to utilize non-traditional revenue sources as a means of offsetting the costs. Columbia of Ohio extended its Customer CHOICE℠ program to all of its nearly 1.3 million customers in mid-1998 and there are now over 470,850 customers participating, including approximately 429,000 residential customers.

In April 1999, Columbia Gas of Kentucky, Inc. (Columbia of Kentucky) filed an application with the Kentucky Public Service Commission (KPSC), seeking approval to initiate a residential and small commercial transportation program. In January 2000, the KPSC approved Columbia of Kentucky's application, but did not renew Columbia of Kentucky's gas cost incentive program originally approved in 1996. Columbia of Kentucky filed for a rehearing of the order during the first quarter of 2000. On May 19, 2000, the KPSC issued an order affirming its original decision to deny continuation of the gas cost incentive program. As an alternative, an incentive sharing mechanism was approved that allows Columbia of Kentucky to retain 25% of annual off-system sales over the term of the pilot program. Additionally, Columbia of Kentucky will remain responsible for mitigating transition capacity costs through the utilization of non-traditional revenues. Columbia of Kentucky began customer enrollment in the pilot program in September 2000, for gas deliveries beginning November 1, 2000. The program is scheduled to run through 2004. Currently, Columbia of Kentucky has approximately 14,000 customers enrolled and participating in its CHOICE℠ program.

The tightening of supply in the natural gas market over the last half of 2000, along with the resultant increase in price of natural gas, has caused several marketers to default on their obligation to deliver gas to Columbia of Ohio and Columbia of Kentucky under both the traditional and CHOICE℠ transportation programs. Columbia of Ohio and Columbia of Kentucky have terminated marketers with 19,500 customers in traditional transportation programs and customers of CHOICE℠

Columbia of Ohio is also a party to two lawsuits involving Energy Max, one of the terminated marketers. A customer in Toledo, Ohio, filed the first suit on October 18, 2000, against both Energy Max and Columbia of Ohio, asking that the complaint be certified as a class action *(Hull v. Columbia Gas of Ohio and Energy Max)*. The plaintiff is seeking to recover the difference between what he would have paid for gas under his Energy Max contract, and what he is paying under Columbia of Ohio's gas cost recovery rate. On January 26, 2001, Columbia of Ohio filed its Answer and a Motion of Dismiss. Energy Max has not filed an answer and is subject to a motion for default judgment. The second suit was filed by Columbia of Ohio against Energy Max on January 2, 2001, in Youngstown, Ohio *(Columbia Gas of Ohio v. Energy Max)*. In this case, Columbia of Ohio is seeking to recover in excess of $340,000 from Energy Max due to its non-delivery of gas in Columbia of Ohio's traditional transportation program. Columbia of Ohio has been given the right to bill the end users for their gas consumption during the months of November and December 2000. The Ohio Office of Consumers' Counsel has also filed a complaint at the PUCO against certain marketers, but Columbia of Ohio is not a party to these complaints at this time.

In Pennsylvania, legislation was passed in June 1999 that allows consumers statewide to choose their natural gas supplier. Under the legislation, all Pennsylvania natural gas utilities, upon approval of the Pennsylvania Public Utility Commission (PPUC), offered all of their customers the opportunity to choose a supplier by July 1, 2000. Before offering choice programs to customers, each company was required to submit a restructuring plan to the PPUC. In 1999, Columbia Gas of Pennsylvania, Inc. (Columbia of Pennsylvania) filed a statewide restructuring plan with the PPUC, which was subsequently approved.

In 1997, the Indiana Utility Regulatory Commission (IURC) approved Northern Indiana's Alternative Regulatory Plan (ARP), which implemented new rates and services that included, among other things, unbundling of services for additional customer classes (primarily residential and commercial users), negotiated services and prices, a gas cost incentive mechanism, and a price protection program. The gas cost incentive mechanism allows Northern Indiana to share any cost savings or cost increases with its customers based upon a comparison of Northern Indiana's actual gas supply portfolio cost to a market-based benchmark price. The gas cost incentive mechanism was reviewed with the Office of Utility Consumer Counselor (OUCC) in December of 2000, and an agreement to extend the program in phases through 2004 was reached. The agreement is subject to approval by the IURC. During the phase-in period, Northern Indiana offered customer choice to all 660,000 residential and 50,000 commercial customers throughout its gas service territory. In addition, as Northern Indiana has allowed residential and commercial customers to designate alternative gas suppliers, it has also offered new services to all classes of customers including price protection, negotiated sales and services, gas lending and parking, and new storage services. As of the end of 2000, 15,711 customers were enrolled in Northern Indiana's customer choice program.

In 1999 the Virginia State Corporation Commission (VSCC) gave Columbia Gas of Virginia, Inc. (Columbia of Virginia), approval to offer all of its 175,000 residential and commercial customers the opportunity to choose their natural gas suppliers. Columbia of Virginia has been providing a pilot transportation program in the Gainesville market area of Northern Virginia since late 1997. There are now over 7,500 customers participating in the pilot program.

In August 1998, the Maryland Public Service Commission approved a two-year continuation of Columbia Gas of Maryland, Inc.'s (Columbia of Maryland) Customer CHOICE[SM] program which allows all of its nearly 32,000 customers to select a natural gas supplier other than Columbia of Maryland. There are approximately 2,400 customers participating in the program.

Bay State implemented unbundled rates and services for all 24,092 of its commercial and industrial customers in 1993, and launched one of the nation's earliest residential and small commercial-industrial customer choice pilot programs in 1996. The Bay State pilot, concluded on November 1, 2000, when all Massachusetts gas utilities made unbundled gas service available to all customer classes pursuant to new statewide model terms and conditions approved by the Massachusetts Department of Telecommunications and Energy. As of December 31, 2000, Bay State had 8,691 customers enrolled in the program.

In New Hampshire, Northern Utilities, Inc. (Northern Utilities) introduced unbundled tariffs and services for all commercial-industrial customers in 1994. Currently there are approximately 87 customers enrolled in the program. In 1998, the New Hampshire Public Utilities Commission (NHPUC) formed a collaborative group to investigate the merits of further unbundling and advise the NHPUC accordingly. The collaborative group has recommended new model terms and conditions and regulations designed to make unbundled services available to all commercial-industrial customers statewide on May 1, 2001, with consideration of residential unbundling at a later date.

In Maine, Northern Utilities introduced unbundled rates and services for large commercial-industrial customers in December 1995 and expanded the availability to all daily metered commercial and industrial customers on November 1, 1999. In June 1999, the Maine Public Utilities Commission opened an inquiry into the potential merits of further regulatory changes related to unbundling. Comments from all participating parties were submitted at the time of the technical session in July 1999. This inquiry was intended to investigate all the key elements of full customer choice and will include a review of customer choice programs in Massachusetts and New Hampshire. Northern Utilities is currently awaiting the Commission's proposed model terms and conditions as the next step.

FERC Order 637

The Federal Energy Regulatory Commission (FERC) issued Order 637 on February 9, 2000. The order sets forth revisions to FERC regulations governing short-term natural gas transportation services and policies governing the regulation of interstate natural gas pipelines. Among other things, the order lifts the price cap for short-term capacity release by pipeline customers for an experimental period ending September 1, 2002.

Gas Distribution is actively engaged in settlement discussions with all of their pipeline suppliers as well as with other major customers on those pipeline systems in an effort to resolve issues raised by the pipelines' pro forma compliance filings regarding FERC Orders 637 and subsequent Orders 637A and 637B (collectively referred to as Order 637). Participants in these discussions reflect all segments of the industry.

Based on the progress of those discussions to date, Gas Distribution believes that implementation of FERC Order 637 initiatives will generally not take place prior to the winter of 2001-2002. Also given the degree of compromise that will be required of all segments of the industry, management believes that implementation will not have a material affect upon Gas Distribution costs, operations or income. Gas Distribution is currently in the process of evaluating the potential changes and impact Order 637 may have on operations; however, it is not anticipated that the implementation of Order 637 will have a material impact on NiSource's consolidated results.

Environmental Matters

Remediation. Several Gas Distribution subsidiaries are a "potentially responsible party" (PRP) at waste disposal sites under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) (commonly known as Superfund) and similar state laws, including at former manufactured gas plant (MGP) sites which such subsidiaries, or their corporate predecessors, own or owned and operated. Gas Distribution subsidiaries may be required to share in the cost of clean-up of such sites. In addition, some Gas Distribution subsidiaries have corrective action liability under the Resource Conservation and Recovery Act (RCRA) for closure and clean-up costs associated with underground storage tanks.

Gas Distribution is party to or otherwise involved in clean-up of three waste disposal sites under Superfund or similar state laws. For one of these sites the potential liability is de minimis and, for the other two, the final costs of clean-up have not yet been determined. As site investigations and clean-ups proceed, waste disposal site liability is reviewed periodically and adjusted as additional information becomes available.

A program has been instituted to identify and investigate former MGP sites where Gas Distribution subsidiaries or predecessors are the current or former owner. The investigation has identified 85 such sites. Initial investigation has been conducted at 39 sites. Investigation activities have been completed at 26 of the 39 sites and remedial measures have been selected or implemented at these sites. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5).

As costs become probable and reasonably estimable, the associated reserves will be adjusted as appropriate. NiSource is unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that as characterization is completed and approved by the EPA, additional remediation work is performed and more facts become available, NiSource will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with Securities and Exchange Commission's Staff Accounting Bulletin No. 92, SFAS No. 5, and American Institute of Certified Public Accountants Statement of Position 96-1.

NiSource intends to continue to evaluate its facilities and properties with respect to environmental laws and regulations and take any required corrective action. To the extent site investigations have been conducted, remediation plans developed and the responsibility for remediation established, the appropriate estimated liabilities have been recorded. A regulatory asset has been recorded to the extent environmental expenditures are expected to be recovered through rates.

As of December 31, 2000, a reserve of approximately $24 million has been recorded to cover probable environmental response actions. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, years of ownership or operation, the number of other PRPs and their financial viability and the extent of environmental response actions required. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any environmental response actions required, after consideration of insurance coverage, contributions from other PRPs and rate recovery, will not have a material effect on its financial position or results of operations.

Mercury Program. Until the 1960s, gas regulators containing small quantities of mercury were installed in homes on some natural gas systems. The purpose of these regulators was to reduce the pressure of the natural gas flowing from the service line for use inside of the home.

In 2000, several unaffiliated gas distribution companies were involved in highly publicized testing and clean-up programs resulting from mercury spills associated with the removal of gas regulators containing mercury. A number of the NiSource gas distribution subsidiaries historically utilized gas regulators that contained small quantities of mercury. All NiSource subsidiaries have implemented a program for reviewing their procedures for managing gas regulators containing mercury. While this program is currently underway, it has not identified any significant problems associated with past or current use or removal of mercury regulators. Information generated to date shows that certain NiSource gas distribution subsidiaries have a small number or no mercury-containing gas regulators in service. NiSource gas distribution subsidiaries that still utilize gas regulators containing mercury have programs in place to ensure the proper management of gas regulators containing mercury, including ensuring that any accidental mercury spills associated with maintenance or removal of these regulators are detected and properly cleaned up.

NiSource subsidiaries have received and responded to inquiries about the current and historical use of gas regulators containing mercury from regulatory agencies in Kentucky and Pennsylvania. In addition, on December 7, 2000, the Environmental Protection Agency (EPA) Region V sent letters to all NiSource subsidiaries in Indiana and Ohio asking each of them to "review its records and address any concerns or issues associated with mercury regulators, manometers, or any other mercury-containing measuring devices." We believe that the program described in the preceding paragraph will be sufficient to satisfy the EPA's request.

Voluntary Early Retirement Program

As a result of NiSource's ongoing review of its various business units, the acquisition of Columbia, the utilization of improved technologies and process improvement initiatives, management has identified a number of ways to improve efficiency. As discussed below, NiSource implemented a Voluntary Early Retirement Program (VERP) to reduce staffing levels.

In September 2000, NiSource announced the introduction of a VERP for certain of its subsidiaries. Approximately 110 employees were eligible. During the acceptance period that began on October 12, 2000, and closed on November 25, 2000, 80 employees elected early retirement. The majority of the retirements occurred on January 1, 2001. NiSource recorded expense of $8 million in the fourth quarter of 2000 related to this VERP.

Following the acquisition of Columbia on November 1, 2000, a VERP was offered to employees of Columbia's gas distribution subsidiaries. The acceptance period ended on December 22, 2000, at which time 64 employees elected early retirement with the majority of the retirements also occurring on January 1, 2001. The total fourth quarter 2000 cost of this VERP was $4.7 million.

Retirement costs for these employees are funded through the pension plan.

Deliveries

Due to the acquisition of Columbia on November 1, 2000, total sales and transportation deliveries for 2000 of 594.1 billion cubic feet (Bcf), increased 160.8 Bcf over 1999. This increase was primarily attributed to the inclusion of Columbia's five gas distribution subsidiaries for the last two months of 2000 which contributed 133 Bcf to the total sales and transportation for that year and added over 2.1 million customers.

Sales and transportation deliveries in 1999 for the Gas Distribution operations were 141.1 Bcf and 253.0 Bcf, respectively. Compared to 1998, this was an increase of 42.9 Bcf for sales and 75.2 Bcf for transportation due largely to the inclusion of Bay State's results for 10 months of 1999 and 12% colder weather.

Net Revenues

Net revenues for 2000 of $740 million increased $280.6 million over 1999 due primarily to the inclusion of Columbia's Gas distribution operations for the last two months of 2000 and the full year effect of Bay State. Also improving net revenues were increased sales due to colder weather in the last quarter of 2000.

For 1999, net revenues were $459.4 million, an increase of $184.2 million over 1998 as a result of the inclusion of ten months of Bay State's operations, together with increased sales to residential and commercial customers due to colder weather in 1999, which was partially offset by decreased deliveries to industrial customers. Also improving net revenues were additional revenues from transportation services.

Operating Income

Operating income of $225.4 million for 2000 increased $110 million over 1999 reflecting two months of Columbia's operations and the full year effect of Bay State. Tempering these improvements was $16.9 million of expense in 2000 for the write-down of certain assets in preparation for sale and approximately $6.9 million of expense related to the amortization of goodwill attributable to the acquisition of Columbia, restructuring costs and higher employee related costs. These higher costs were partially offset by lower customer related expenses.

In 1999, a $13 million favorable adjustment was recorded for an insurance settlement related to clean-up costs for manufactured gas plant sites. Operating income of $115.4 million for 1999 increased $50.3 million over 1998. The improvement was primarily attributable to ten months of Bay State's operations and the $13 million favorable insurance settlement mentioned above, partially offset by higher employee related costs.

Gas Distribution Operation Results (Unaudited)

Year Ended December 31, (in millions)	*2000*	*1999*	*1998*
Net Revenues			
Sales revenues	**$1,983.9**	$969.7	$651.3
Less: Cost of gas sold	**1,481.7**	630.3	376.1
Net Sales Revenues	**502.2**	339.4	275.2
Net Transporation Revenues	**237.8**	120.0	n/a
Net Revenues	**740.0**	459.4	275.2
Operating Expenses			
Operation and maintenance	**282.1**	193.5	113.1
Depreciation and amortization	**147.3**	115.4	74.7
Loss on asset impairments	**16.9**	—	—
Other taxes	**68.3**	35.1	22.3
Total Operating Expenses	**514.6**	344.0	210.1
Operating Income	**$ 225.4**	$115.4	$ 65.1

Gas Distribution Operating Highlights

	2000	*1999*	*1998*
Throughput (Bcf)			
Sales			
Residential	**140.5**	90.6	62.2
Commercial	**56.5**	37.7	23.5
Industrial and Other	**15.1**	12.8	12.5
Total Sales	**212.1**	141.1	98.2
Transportation	**352.0**	253.0	177.8
Total Throughput	**564.1**	394.1	276.0
Off-System Sales	**30.0**	39.2	31.6
Total Sold and Transported	**594.1**	433.3	307.6
Customers (served at year end)			
Sales			
Residential	**2,352,219**	939,426	675,782
Commercial	**216,361**	85,632	53,061
Industrial and Other	**6,032**	3,857	3,872
Total Sales Customers	**2,574,612**	1,028,915	732,715
Transportation	**636,442**	42,306	6,685
Total Customers	**3,211,054**	1,071,221	739,400
Degree Days			
Actual	**5,132**	5,593	5,097
Normal	**5,324**	6,104	6,104

ELECTRIC OPERATIONS

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 430,057 customers in 21 counties in the northern part of Indiana. Northern Indiana owns and operates four coal-fired electric generating stations with a net capability of 3,179 megawatts, four gas-fired combustion turbine generating units with a net capability of 203 megawatts and two hydroelectric generating plants with a net capability of 10 megawatts. These facilities provide for a total system net capability of 3,392 megawatts. Northern Indiana is interconnected with five neighboring electric utilities.

Market Conditions

The regulatory frameworks applicable to electric operations are undergoing fundamental changes. These changes have previously had, and will continue to have an impact on NiSource's electric operations, structure and profitability. At the same time, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to become more competitive and profitable in this changing environment, including converting some of its generating units to allow use of lower cost, low sulfur coal and improving the transmission interconnections with neighboring electric utilities.

Regulatory Matters

FERC issued Order No. 888-A in 1996 which required all public utilities owning, controlling or operating transmission lines to file non-discriminatory open-access tariffs and offer wholesale electricity suppliers and marketers the same transmission service they provide themselves. On June 30, 2000, the D.C. Circuit Court of Appeals upheld FERC's open access orders in all major respects. In 1997, FERC approved Northern Indiana's open-access transmission tariff. On December 20, 1999, FERC issued Order 2000 addressing the formation and operation of Regional Transmission Organizations (RTOs). The rule is intended to eliminate pricing inequities in the provision of wholesale transmission service. On October 16, 2000, NiSource filed with the FERC indicating that it is committed to joining an RTO and that it would likely join an alliance RTO. Although wholesale customers currently represent a small portion of Northern Indiana's electricity sales, it intends to continue its efforts to retain and add wholesale customers by offering competitive rates and also intends to expand the customer base for which it provides transmission services.

At the state level, during 1999, discussions were held with the other investor-owned utilities in Indiana and with other segments of the Indiana electric industry regarding the technical and economic aspects of possible legislation leading to greater customer choice. A consensus was not reached. Therefore, NiSource did not support legislation regarding electric restructuring during the 2000 session of the Indiana General Assembly. Discussions are ongoing with all segments of the Indiana electric industry in an attempt to reach a consensus on electric restructuring legislation.

During the course of a regularly scheduled review, referred to as a Level 1 review, the staff of the Indiana Utility Regulatory Commission (IURC) made a preliminary determination, based on unadjusted historical financial information filed by Northern Indiana, that Northern Indiana was earning returns that were in excess of its last rate order and generally established standards. Despite holding meetings with the IURC staff during 2000 to explain several adjustments that needed to be made to the filed information to make such an analysis meaningful, the staff has recommended that a formal investigation be performed. The IURC has ordered that an investigation begin. Management is unable at this time to determine if a broader analysis, which would be performed through a formal investigation, could result in a rate adjustment that would be higher or lower than currently allowed rates. Management intends to vigorously oppose any efforts to reduce rates that may result from this investigation.

Environmental Matters

Air. The Clean Air Act Amendments of 1990 (CAAA) impose limits to control acid rain on the emission of sulfur dioxide and nitrogen oxides (NOx) which became fully effective in 2000. All of Northern Indiana's facilities are in compliance with the sulfur dioxide and NOx limits.

The CAAA also contain other provisions that could lead to limitations on emissions of hazardous air pollutants and other air pollutants (including NOx as discussed below), which may require significant capital expenditures for control of these emissions. Until specific rules are issued that affect Northern Indiana's facilities, what these requirements will be or the costs of complying with these requirements cannot be predicted.

During 1998, the EPA issued a final rule, the NOx State Implementation Plan (SIP) call, requiring certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers. The EPA stated that the intent of the rule is to lower regional transport of ozone impacting other states' ability to attain the federal ozone standard. According to the rule, the State of Indiana must issue regulations implementing the control program. The State of Indiana, as well as some other states, filed a legal challenge in December 1998 to the EPA NOx SIP call rule. Lawsuits have also been filed against the rule by various groups, including utilities. In a March 3, 2000, decision, the United States Court of Appeals for the D.C. Circuit ruled largely in favor of the EPA's regional NOx plan and on June 22, 2000, the court extended the deadline for the state plan submittals implementing the EPA NOx SIP call to October 30, 2000. A petition for a hearing before the United States Supreme Court has been filed. The State of Indiana superceded its February 2000, proposed NOx control plan designed to address Indiana's ozone nonattainment areas and regional ozone transport, by initiating rulemaking on a more stringent rule compliant with the EPA's NOx SIP call rule. That rulemaking is expected to be finalized by mid-summer 2001. Northern Indiana is actively involved in the review of and comment on the proposed Indiana rules.

In spite of the state's efforts, on December 18, 2000, the EPA sent Indiana and 10 other NOx SIP call states and the District of Columbia deficiency notices for their failure to submit final rules by the October 30, 2000, deadline. Because Indiana has been working with the EPA and is expected to finalize its rule by mid-summer 2001, no additional adverse requirements are expected. Any NOx emission limitations resulting from the Indiana rules are expected to be more restrictive than those imposed on electric utilities under the CAAA's acid rain NOx reduction program described above. NiSource is following the litigation and evaluating the court decision and any potential requirements that could result from the rules as implemented by the State of Indiana. NiSource believes that the costs relating to compliance with any new standards may be substantial, but such costs are dependent upon the outcome of the current litigation and the ultimate control program agreed to by the targeted states and the EPA and are not currently reasonably estimable. NiSource is continuing its programs to reduce NOx emissions at Northern Indiana's electric facilities and will continue to closely monitor developments in this area.

In a matter related to the NOx SIP call, several northeastern states have filed petitions with the EPA under Section 126 of the Clean Air Act. The petitions allege harm and request relief from sources of emissions in the Midwest that allegedly cause or contribute to ozone nonattainment in their states. NiSource is monitoring the EPA's decisions on these petitions and existing litigation to determine the impact of these developments on programs to reduce NOx emissions at Northern Indiana's electric facilities.

The EPA issued final rules revising the National Ambient Air Quality Standards for ozone and particulate matter in July 1997. On May 14, 1999, the United States Court of Appeals for the D.C. Circuit remanded the new rules for both ozone and particulate matters to the EPA. The Court of Appeals Decision was appealed to the Supreme Court which heard oral arguments on November 7, 2000, and is expected to make a decision in spring 2001. If upheld by the court, the revised standards could require additional reductions in sulfur dioxide, particulate matter and NOx emissions from coal-fired boilers (including Northern Indiana's electric generating stations) beyond measures discussed above. Final implementation methods will be set by the EPA as well as state regulatory authorities. NiSource believes that the costs relating to compliance with any new limits may be substantial but are dependent upon the ultimate control program agreed to by the targeted states and the EPA and are currently not reasonably estimable. NiSource will continue to closely monitor developments in this area, however, the exact nature of the impact of the new standards on its operations will not be known for some time.

In a letter dated September 15, 1999, the Attorney General of the State of New York alleged that Northern Indiana violated the Clean Air Act by constructing a major modification of one of its electric generating stations without obtaining preconstruction permits required by the Prevention of Significant Deterioration (PSD) program. The major modification allegedly took place at the R. M. Schahfer Station when, "in approximately 1995–1997, Northern Indiana upgraded the coal handling system at Unit 14 at the plant." While Northern Indiana is investigating these allegations, it does not believe that the alleged modifications required preconstruction review under the PSD program and believes that all appropriate permits were acquired.

Initiatives are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels. Reduction of such emissions could result in significant capital outlays or operating expenses for Northern Indiana.

On December 20, 2000, by notice in the Federal Register, the EPA issued a finding that the regulation of emissions of mercury and other air toxics from coal and oil-fired electric steam generating units is necessary and appropriate. The EPA expects to issue proposed regulations by December 15, 2003, and finalized regulations by December 15, 2004. The potential impact, if any, to NiSource's financial results that may occur because of any potential new regulations concerning emissions of mercury and other air toxics is unknown at this time.

Remediation. Northern Indiana is a PRP at four waste disposal sites under CERCLA and similar state laws, and may be required to share in the cost of clean-up of such sites. In addition, Northern Indiana has corrective action liability under the RCRA for closure and clean-up costs associated with treatment, storage, and disposal units. As of December 31, 2000, a reserve of approximately $2 million has been recorded to cover probable environmental response actions at these sites. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, years of ownership of operations, the number of other PRPs and their financial viability and the extent of environmental response required. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any environmental response required will not have a material effect on its financial position or results of operations.

Sales

Electric sales for 2000 of 17.5 billion kilowatt-hours (kwh) decreased 899.5 million kwh, or 5% as compared to 1999 due primarily to reduced residential sales reflecting cooler weather and reduced wholesale sales. The basic steel industry accounted for approximately 32% of electric sales in 2000.

In 1999, electric sales of 18.4 billion kwh decreased 11.1 billion kwh, or 38% from 1998 due primarily to lower wholesale and power trading.

Net Revenues

In 2000, electric net revenues of $812.4 million increased by $10 million over 1999 due largely to higher sales rates in effect. The average revenue per kwh sold increased 2% over 1999 to 6.08 cents per kwh in 2000, while the cost of fuel for electric generation in 2000 decreased $7 million compared to 1999 reflecting decreased fuel costs. The average cost per kwh generated decreased 4% from 1999 to 1.41 cents per kwh in 2000.

Electric net revenues for 1999 of $802.4 million, increased by $35.3 million over 1998 primarily as a result of a decrease in the cost of sales. The average revenue per kwh sold increased 26% from 1998 to 5.97 cents per kwh in 1999. The cost of fuel for electric generation in 1999 decreased $1.5 million compared to 1998 primarily reflecting an average cost of 1.47 cents per kwh in 1999, a decrease of 3% from 1998.

Operating Income

Operating income for 2000 of $364 million was relatively unchanged from 1999, as higher net revenues, as discussed above, were offset by higher operating expenses attributable to generally increased operating costs and higher depreciation expense as a result of additional plant in service. These higher expenses were partially offset by lower other taxes.

For 1999, operating income of $363.4 million, increased by $14.8 million from 1998, reflecting higher net revenues, as discussed above, tempered by higher operating expenses due in large part to increased employee related costs and higher gross receipts and property taxes.

Electric Operation Results (Unaudited)

Year Ended December 31,	2000	1999	1998
		(in millions)	
Net Revenues			
Sales revenues	**$1,559.9**	$1,348.9	$1,430.0
Less: Cost of sales	**747.5**	546.5	662.9
Net Revenues	**812.4**	802.4	767.1
Operating Expenses			
Operation and maintenance	**237.7**	227.4	210.1
Depreciation	**162.7**	158.5	156.8
Other taxes	**48.0**	53.1	51.6
Total Operating Expenses	**448.4**	439.0	418.5
Operating Income	**$ 364.0**	$ 363.4	$ 348.6

Electric Operating Highlights

	2000	1999	1998
Sales (000 Megawatt-hours)			
Residential	**2,953.3**	2,996.7	2,936.8
Commercial	**3,373.4**	3,292.1	3,159.1
Industrial	**9,484.1**	9,186.1	8,782.4
Wholesale and power trading	**1,546.9**	2,765.4	14,480.6
Other	**121.8**	138.7	121.6
Total Sales	**17,479.5**	18,379.0	29,480.5
Customers (Served at year end)			
Residential	**379,908**	376,483	372,383
Commercial	**46,637**	45,821	44,960
Industrial	**2,662**	2,677	2,736
Wholesale and power trading	**44**	44	46
Other	**806**	815	822
Total Customers	**430,057**	425,840	420,947

GAS TRANSMISSION AND STORAGE OPERATIONS

NiSource's gas transmission and storage segment primarily consists of the operations of Columbia Gas Transmission Corporation (Columbia Transmission), Columbia Gulf Transmission Company (Columbia Gulf) and Columbia Pipeline Corporation. In total NiSource owns a pipeline network of approximately 15,880 miles extending from offshore in the Gulf of Mexico to Lake Erie, New York and the eastern seaboard. Together they serve customers in fifteen northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, Columbia Transmission operates one of the nation's largest underground natural gas storage systems. Throughput for Columbia Gulf reflects mainline transportation services from Rayne, Louisiana, to Leach, Kentucky, and short-haul transportation services from the Gulf of Mexico to Rayne, Louisiana.

Proposed Millennium Pipeline Project

The proposed Millennium Pipeline Project (Millennium Project), in which Columbia Transmission is participating and will serve as developer and operator, will transport western gas supplies to northeast and mid-Atlantic markets. The 442-mile pipeline will connect to TransCanada Pipe Lines Ltd. at a new Lake Erie export point and transport approximately 700,000 Dth per day to eastern markets. There are currently eight shippers who have signed agreements for a significant portion, in aggregate, of the available capacity. Based on delays attributed to the regulatory approval process at the FERC, the Millennium Project sponsors have advised the FERC of a revised in-service date of November 1, 2002.

The sponsors of the proposed Millennium Project are Columbia Transmission, Westcoast Energy, Inc., TransCanada Pipe Lines, Ltd. and MCN Energy Group, Inc.

Volunteer Pipeline

On April 14, 1999, Columbia Gulf, MCN Energy Group, Inc. and AGL Resources, Inc. announced the start of an open season on the proposed Volunteer Pipeline (Volunteer). They were offering approximately 250,000 Dth per day of capacity in a natural gas pipeline extending approximately 160 miles from an interconnection near Portland, Tennessee, to an interconnection near Chattanooga, Tennessee. Volunteer anticipates additional interconnections with several pipeline companies including Columbia Gulf who will also serve as operator of the new pipeline facilities.

At the end of the open season in May 1999, nearly a dozen companies requested more than 440,000 dth per day of capacity on Volunteer. Following the conclusion of the open season, several power developers in Georgia also expressed interest in obtaining capacity in the Volunteer pipeline. Volunteer expects to provide firm natural gas transportation from the mid-continent into the Atlanta, Georgia market, and other southeastern markets. Volunteer is currently in the process of negotiating with potential shippers, and the timing of a FERC construction application is contingent upon a final determination of market demand based upon these negotiations. Volunteer is exploring several construction options and timelines that would have the pipeline in place to meet market demand as it evolves. Subsequent to the open season, AGL Resources, Inc. withdrew its participation in the project.

Mainline '99

Columbia Gulf filed an application with the FERC in June 1998, for authority to increase the maximum certificated capacity of its mainline facilities. Columbia Gulf's largest expansion of its mainline facilities, referred to as Mainline '99, was authorized by the FERC in February 1999. The Mainline '99 project has increased Columbia Gulf's certificated capacity to nearly 2.2 billion cubic feet per day (Bcf/day) by replacing certain compressor units and increasing the horsepower capacity of other compressor stations. Appeals challenging the FERC's authorization of the Mainline '99 facilities have been filed and are currently pending before the United States Court of Appeals for the District of Columbia.

Effect of LDC Unbundling Services

NiSource's gas transmission and storage subsidiaries compete with other interstate pipelines for the transportation and storage of natural gas. Since the issuance of FERC Order No. 636, various states throughout Columbia Transmission's service area have initiated proceedings dealing with open access and unbundling of LDC services. Among other things, unbundling involves providing all LDCs with the choice of what entity will serve as transporter as well as merchant supplier. While the scope and timing of these various unbundling initiatives varies from state to state, retail choice programs are being extended to increasing numbers of LDC customers throughout Columbia Transmission's market area.

Among the issues being addressed in the state unbundling proceedings is the treatment of the pipeline transmission and storage agreements that have underpinned the traditional LDC merchant function. In the case of Columbia Transmission and Columbia Gulf, contracts covering the majority of their firm transportation and storage quantities with LDCs have primary terms that extend to October 31, 2004. Management fully expects that the LDCs, or those entities to which pipeline capacity may be assigned as a result of the LDC unbundling process, will continue to fulfill their obligations under these contracts. However, in view of the changing market and regulatory environment, NiSource's transmission companies have commenced the process of discussing long-term transportation and storage service needs with their firm customers. Those discussions could result in the restructuring of some of these contracts on mutually agreeable terms prior to 2004.

Columbia Gulf Voluntary Severance Plan

Columbia Gulf announced a voluntary severance plan (VSP) on September 19, 2000, for its workforce to assist in the elimination of approximately 70 positions. The positions were eliminated by December 31, 2000. The cost of the VSP was approximately $6.6 million and was recognized in the fourth quarter of 2000.

Environmental Matters

Remediation. Columbia Transmission continues to conduct assessment, characterization and remediation activities at specific sites under a 1995 EPA Administrative Order by Consent (AOC). The program pursuant to the AOC covers approximately 240 facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. As of December 31, 2000, field characterization has been performed at almost all of these sites, with the exception of the storage well locations. Site characterization reports and remediation plans which must be submitted to the EPA for approval, are in various stages of development and completion. Characterization of the storage well locations were initiated in the fall of 2000 and are yet to be completed. Significant remediation has taken place at mercury measurement stations, liquid removal point sites, and at a limited number of the 240 facilities.

Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5). As costs become probable and reasonably estimable, the associated reserves will be adjusted as appropriate. Columbia Transmission is unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that as characterization is completed and approved by the EPA, additional remediation work is performed and more facts become available, Columbia Transmission will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof, consistent with Securities and Exchange Commission's Staff Accounting Bulletin No. 92, SFAS No. 5, and American Institute of Certified Public Accountants Statement of Position 96-1.

At the end of 2000, the remaining environmental liability recorded on the balance sheet for the gas transmission and storage operations was $104.5 million. Columbia Transmission's environmental cash expenditures are expected to be approximately $16 million in 2001 and to remain at this level in the foreseeable future. These expenditures will be charged against the previously recorded liability. A regulatory asset has been recorded to the extent environmental expenditures are expected to be recovered through rates. Management does not believe that Columbia Transmission's environmental expenditures will have a material adverse effect on NiSource's operations, liquidity or financial position, based on known facts, existing laws, regulations, Columbia Transmission's cost recovery settlement with customers and the long time period over which expenditures will be made.

In addition, predecessor companies of Columbia Transmission may have been involved in the operation of manufactured gas plants. When such plants were abandoned, material used and created in the process was sometimes buried at the site. Columbia Transmission is as yet unable to determine if it will become liable for any characterization or remediation costs at such sites.

Results of Operations
As part of the acquisition of Columbia that was completed on November 1, 2000, Columbia Transmission and Columbia Gulf became wholly owned subsidiaries of NiSource.

Throughput for the last two months of 2000 was 304.4 Bcf. For November and December 2000, operating revenues, which are primarily derived from transportation and storage services, were $161.7 million and operating income was $61.5 million. Included in operating expense was approximately $8.1 million of goodwill amortization associated with the acquisition of Columbia.

Gas Transmission and Storage Operations Results (Unaudited)

Two Months Ended December 31, (in millions)	*2000*
Operating Revenues	
Transportation revenues	$128.1
Storage revenues	29.9
Other revenues	3.7
Total Operating Revenues	161.7
Operating Expenses	
Operation and maintenance	65.1
Depreciation and amortization	26.1
Other taxes	9.0
Total Operating Expenses	100.2
Operating Income	$ 61.5

Gas Transmission and Storage Operating Highlights

	2000
Throughput (Mdth)	
Transportation	
Columbia Transmission	
Market area	269.8
Columbia Gulf	
Mainline	111.0
Short-haul	27.5
Intrasegment eliminations	(103.9)
Total Throughput	304.4

EXPLORATION AND PRODUCTION OPERATIONS

NiSource's exploration and production subsidiary, Columbia Energy Resources, Inc. (Columbia Resources), is one of the largest independent natural gas and oil producers in the Appalachian Basin and also has production operations in Canada. Columbia Resources was acquired as part of the Columbia acquisition on November 1, 2000. Columbia Resources produced nearly 10 Bcf equivalents (Bcfe) of natural gas and oil in the last two months of 2000, has financial interests in 8,000 wells, and has net proven gas and oil reserve holdings of 1.1 trillion cubic feet equivalent at December 31, 2000. Columbia Resources also owns and operates approximately 6,200 miles of gathering pipelines.

Columbia Resources seeks to achieve asset and profit growth primarily through expanded drilling activities. Though only owned by NiSource for the last two months of 2000, for purposes of presenting a meaningful description of its operations, the drilling activity is discussed on an annual 2000 basis. For 2000, Columbia Resource's drilling activity resulted in the discovery of 78.6 net Bcfe of gas and oil reserves. For 1999, reserves of 69.5 Bcfe were developed. Through December 2000, Columbia Resources has participated in 259 gross (239 net) wells with a success rate of 85 percent compared to 263 gross (240) net wells with a success rate of 82 percent in 1999.

Forward Sale of Natural Gas
On August 24, 2000, Columbia Resources entered into an agreement with Mahonia II Limited (Mahonia), whereby Columbia Resources agreed to sell 111.7 Bcf of natural gas to Mahonia for the period August 2000 through July 2005.

Voluntary Early Retirement Program
In September 2000, Columbia Resources announced the introduction of a VERP. Approximately 100 employees of Columbia Resources were eligible for the program, which provided a retirement incentive for active employees who were age fifty and above with at least five years of service as of January 1,

2001. The acceptance period ended on December 22, 2000, with approximately 81 employees electing to participate at a cost of $5.3 million.

Results of Operations

Gas production was 9.5 Bcf for the last two months of 2000, while oil and liquids production was 26,500 barrels. During this period, approximately 90% of Columbia Resources' natural gas production was hedged or committed through fixed price contracts at an average price of $3.78 per Mcf. Operating revenues totaled $41.1 million and operating income was $15.6 million for this two month period.

Exploration and Production Operations Results (Unaudited)

Two Months Ended December 31,	*2000*
	($ in millions)
Operating Revenues	
Gas revenues	$ 37.9
Other revenues	3.2
Total Operating Revenues	41.1
Operating Expenses	
Operation and maintenance	13.4
Depreciation, amortization and depletion	9.1
Other taxes	3.0
Total Operating Expenses	25.5
Operating Income	$ 15.6

Exploration and Production Operating Highlights

	2000
Proved Reserves	
Gas (Bcf)	1,087.9
Oil and Liquids (000 barrels)	389.0
Production	
Gas (Bcf)	9.5
Oil and Liquids (000 barrels)	26.5
Average Prices	
Gas (per Mcf)*	$ 3.98
Oil and Liquids (per barrel)	$29.59

*Includes the effect of hedging activities as discussed in Note 8 of Notes to Consolidated Financial Statements

ENERGY MARKETING OPERATIONS

NiSource provides non-regulated energy marketing and services through its wholly-owned subsidiaries EnergyUSA, Inc. and its subsidiary TPC and NESI Energy Marketing LLC (NEM). These operations consist of a variety of energy-related services, including gas and power marketing and asset management services to LDCs, wholesale, commercial and industrial customers. In April 1999, NiSource acquired TPC Corporation and renamed it EnergyUSA-TPC Corporation. TPC primarily provides energy-related asset management and asset portfolio replacement opportunities, for LDCs and fuel requirement services for electric utilities, independent power producers and cogeneration facilities. In 1999, TPC assumed the operations of NEM, which provides natural gas sales and management services to industrial and commercial customers, engaged in natural gas marketing activities and provides gas supply to Northern Indiana, Kokomo Gas and Northern Indiana Fuel and Light under spot and/or term contracts.

Net Revenues

Net revenues for 2000 of $70.4 million increased $50.5 million over 1999 primarily due to the addition of significant asset management contracts in the TPC portfolio and the full year effect in 2000 of TPC operations.

Net revenues for 1999 of $19.9 million increased $10.8 million over 1998 primarily due to the addition of TPC operations.

Operating Loss

Energy marketing had an operating loss for 2000 of $2 million compared to an operating loss of $15.5 million for 1999. The improvement was due primarily to higher revenues as discussed above. This improvement was partially offset by $14.4 million of expense recorded for the loss on certain assets in preparation for sale and increased operating expenses attributable to the full year effect of TPC's operations.

An operating loss of $15.5 million for 1999 increased $13.4 million over 1998 due largely to higher operating expense attributable to increased staffing levels that resulted from the significant growth of the marketing operations in 2000. The impact of these higher costs was tempered by improved net revenues, as discussed above.

Energy Marketing Operations Results (Unaudited)

Year Ended December 31,	*2000*	*1999*	*1998*
		($ in millions)	
Net Revenues			
Sales revenues	**$2,103.3**	$774.7	$644.3
Less: Cost of products purchased	**2,032.9**	754.8	635.2
Net Revenues	**70.4**	19.9	9.1
Operating Expenses			
Operation and maintenance	**44.4**	29.5	10.3
Depreciation	**11.8**	5.0	0.6
Loss on asset impairments	**14.4**	—	—
Other taxes	**1.8**	0.9	0.3
Total Operating Expenses	**72.4**	35.4	11.2
Operating Loss	**$ (2.0)**	$ (15.5)	$ (2.1)

OTHER PRODUCTS AND SERVICES

NiSource develops power projects through its subsidiary, Primary Energy, Inc. (Primary Energy) which works with industrial customers in managing the engineering, construction, operation and maintenance of "inside the fence" cogeneration plants that provide cost-effective, long-term sources of energy for energy-intensive facilities. NiSource has also invested in a number of distributed generation technologies including fuel cells and microturbine ventures. NiSource is also building a dark-fiber optics telecommunications network primarily along its pipeline rights-of-way between New York and Washington, D.C. NiSource is pursuing strategic alternatives for its telecommunications network and has recently exited the pipeline construction business and is in the process of selling the line locating and marking business.

Primary Energy
Primary Energy develops, builds, owns, operates and manages industrial based energy projects. The focus of the company is to develop on-site, industrial-based energy solutions for large complexes having multiple energy flows, such as, electricity, steam, by-product fuels or heated water. Through its subsidiaries, Primary Energy has entered into agreements with several of NiSource's largest industrial customers, principally steel mills and a refinery, to service a portion of their energy needs. In order to serve its customers under the agreements, and to have electricity available for the wholesale market, Primary Energy, through its subsidiaries, has entered into certain operating lease commitments to lease these energy-related projects, which have a combined capacity of 393 megawatts in operation and 575 megawatts under construction. NiSource, through subsidiaries, guarantees certain of Primary Energy's obligations under each lease, which are included in the amount disclosed in the Operating Leases in Note 18(G) of Notes to Consolidated Financial Statements.

Telecommunications Network Environmental Matters
In spring 2000, Columbia Transmission Communication Corporation (Transcom), received directives from the Philadelphia District of the U.S. Army Corps of Engineers (Philadelphia District) and an administrative order from the Pennsylvania Department of Environmental Protection (PA DEP) addressing alleged violations of federal and state laws resulting from construction activities associated with Transcom's laying of fiber optic cable along portions of a route between Washington, D.C., and New York City. The order and directives required Transcom to largely cease construction activities. On September 18, 2000, Transcom entered into a voluntary settlement agreement with the Philadelphia District under which Transcom contributed $1.2 million to the Pennsylvania chapter of the Nature Conservancy and the Philadelphia District lifted its directives. As a result of the voluntary agreement with the Philadelphia District and communications with the PA DEP, the Maryland Department of the Environment and the Baltimore District of the U.S. Army Corps of Engineers, work in Pennsylvania and Maryland is now ongoing. Transcom cannot predict the effect of the ongoing discussions on the completion schedule for the project, nor the nature or amount of total remedies that may be sought in connection with the foregoing construction activities.

Net Revenues
Net revenues for year 2000 for other products and services of $114.7 million decreased $7.3 million from 1999, due largely to lower margins from line locating and marking activity partially offset by increased margins from cogeneration activities.

Net revenues of $122 million for 1999 increased $9.6 million over 1998 reflecting a new energy-related project that began commercial operations in August 1998 and increased pipeline construction activity.

Operating Income

Operating income for 2000 of $6.6 million, decreased $12.5 million reflecting lower net revenues, as discussed above, together with higher operating expense as a result of increased costs for line locating and marking activities and pipeline construction operations. In addition, the last two months of 2000 include start-up costs related to Transcom's construction of its telecommunications network.

Operating income of $19.1 million for 1999 increased $15 million over 1998 due to improved net revenues and reduced operation and maintenance costs.

Other Products and Services Results (Unaudited)

Year Ended December 31,	***2000***	*1999*	*1998*
		(in millions)	
Net Revenues			
Products and services revenues	**$259.3**	$242.9	$211.0
Less: Cost of products purchased	**144.6**	120.9	98.6
Net Revenues	**114.7**	122.0	112.4
Operating Expenses			
Operation and maintenance	**88.8**	85.2	93.4
Depreciation and amortization	**12.6**	11.5	8.7
Other taxes	**6.7**	6.2	6.2
Total Operating Expenses	**108.1**	102.9	108.3
Operating Income (Loss)	**$ 6.6**	$ 19.1	$ 4.1

Management's Statement of Responsibility for Financial Statements

To the shareholders of NiSource Inc.:

The management of NiSource Inc. (NiSource) has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles. The consolidated financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

To meet its responsibilities for the reliability of the consolidated financial statements and related financial data, NiSource's management has established and maintains a system of internal control that provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of errors and irregularities on a timely basis. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees with significant roles in the financial reporting process and are updated as necessary. Management routinely monitors the system of internal control for compliance. NiSource also maintains a strong internal auditing program that independently assesses the effectiveness of the internal controls and recommends possible improvements thereto. Management believes that NiSource's system of internal control is adequate to accomplish the objectives discussed above.

January 30, 2001

Gary L. Neale
Chairman, President and
Chief Executive Officer

Michael W. O'Donnell
Executive Vice President and
Chief Financial Officer

Report of Independent Public Accountants

To the Board of Directors of NiSource Inc.:

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization and long-term debt of NiSource Inc. and subsidiaries as of December 31, 2000 and 1999, and the related statements of consolidated income, common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of NiSource's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NiSource Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Chicago, Illinois
January 30, 2001

Arthur Andersen LLP

Statements of Consolidated Income [1]

Year Ended December 31, (in millions, except per share amounts)	*2000*	*1999*	*1998*
Net Revenues			
Gas distribution	**$1,806.8**	$ 831.6	$ 609.6
Electric	**1,557.4**	1,346.3	1,426.6
Gas transportation and storage	**363.7**	120.0	—
Energy marketing	**1,942.8**	697.1	594.9
Other products and services	**360.0**	278.5	212.8
Gross Revenues	**6,030.7**	3,273.5	2,843.9
Cost of Sales	**4,082.7**	1,880.8	1,691.3
Total Net Revenues	**1,948.0**	1,392.7	1,152.6
Operating Expenses			
Operation and maintenance	**801.7**	564.3	427.4
Depreciation, amortization and depletion	**374.1**	295.0	241.8
Loss on asset impairment	**65.8**	—	—
Other taxes	**138.6**	95.5	80.7
Total Operating Expenses	**1,380.2**	954.8	749.9
Operating Income	**567.8**	437.9	402.7
Other Income (Deductions)			
Interest expense, net	**(304.5)**	(155.4)	(120.2)
Minority interests	**(20.4)**	(17.7)	(0.7)
Preferred stock dividends of subsidiaries	**(7.8)**	(8.1)	(8.3)
Other, net	**42.1**	(20.6)	9.5
Total Other Income (Deductions)	**(290.6)**	(201.8)	(119.7)
Income From Continuing Operations Before Income Taxes	**277.2**	236.1	283.0
Income Taxes	**130.1**	82.2	94.4
Income from Continuing Operations	**147.1**	153.9	188.6
Income from Discontinued Operations — net of tax	**9.8**	6.5	5.3
Net Income	**$ 156.9**	$ 160.4	$ 193.9
Basic Earnings Per Share			
Continuing operations	**$ 1.09**	$ 1.24	$ 1.56
Income from discontinued operations	**0.07**	0.05	0.04
Basic Earnings Per Share	**$ 1.16**	$ 1.29	$ 1.60
Diluted Earnings Per Share			
Continuing operations	**$ 1.08**	$ 1.22	$ 1.55
Income from discontinued operations	**0.07**	0.05	0.04
Diluted Earnings Per Share	**$ 1.15**	$ 1.27	$ 1.59
Dividends declared per common share	**$ 1.080**	$ 1.035	$ 0.975
Average common shares outstanding (thousands)	**134,470**	124,343	120,778
Diluted average common shares (thousands)	**135,811**	125,339	121,335

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Statements of Consolidated Cash Flows

Year Ended December 31, (in millions)	*2000*	*1999*	*1998*
Operating Activities			
Net Income	**$ 156.9**	$160.4	$193.9
Adjustments to reconcile net income to net cash from continuing operations:			
Depreciation, depletion, and amortization	**374.2**	293.0	241.1
Net changes in price risk management activities	**(89.8)**	10.4	—
Deferred income taxes	**34.7**	(17.3)	(31.2)
Gain on asset disposition	**(55.4)**	(7.5)	(4.6)
Income from discontinued operations	**(9.8)**	(6.6)	(5.3)
Asset impairment	**65.8**	28.3	—
Deferred revenue	**(8.0)**	—	—
Other, net	**33.8**	(6.0)	(0.2)
	502.4	454.7	393.7
Changes in components of working capital, net of effect from acquisitions of businesses:			
Accounts receivable, net	**(753.0)**	52.7	(31.3)
Inventories	**13.0**	46.4	(20.2)
Accounts payable	**629.4**	(128.6)	13.3
Accrued taxes	**(46.9)**	(6.4)	(10.7)
(Under) Overrecovered gas costs	**(198.5)**	(12.8)	53.2
Exchange gas receivable/payable	**58.6**	—	—
Deferred revenue	**14.2**	—	—
Other accruals	**(131.5)**	3.8	(14.6)
Other working capital	**(65.9)**	8.3	64.6
Net Cash from Continuing Operations	**21.8**	418.1	448.0
Net Cash from Discontinued Operations	**(28.7)**	—	—
Net Cash from Operating Activities	**(6.9)**	418.1	448.0
Investing Activities			
Capital expenditures	**(365.6)**	(313.0)	(219.1)
Acquisition of businesses	**(5,654.5)**	(725.8)	—
Proceeds from disposition of assets	**535.2**	29.8	10.4
Other investing activities, net	**9.2**	(49.1)	(16.2)
Net Investing Activities	**(5,475.7)**	(1,058.1)	(224.9)
Financing Activities			
Issuance of long-term debt	**2,629.3**	189.2	47.4
Retirement of long-term debt	**(488.1)**	(201.0)	(94.6)
Change in short-term debt	**1,655.4**	229.1	166.1
Retirement of preferred shares	**(6.9)**	(2.4)	(2.4)
Proceeds from Corporate Premium Income Equity Securities, net	—	334.7	—
Issuance of common stock	**2,042.1**	324.9	10.4
Acquisition of treasury stock	**(65.9)**	(126.5)	(204.0)
Dividends paid — common shares	**(131.8)**	(125.7)	(116.4)
Other financing activities, net	—	0.5	(0.5)
Net Financing Activities	**5,634.1**	622.8	(194.0)
Increase (decrease) in cash and cash equivalents	**151.5**	(17.2)	29.1
Cash and cash equivalents at beginning of year	**41.5**	58.7	29.6
Cash and cash equivalents at end of year	**$ 193.0**	$41.5	$58.7
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest, net of amounts capitalized	**244.5**	152.7	112.5
Cash paid for income taxes	**227.0**	115.8	115.1

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

Assets *as of December 31, (in millions)*	*2000*	*1999*
Property, Plant and Equipment		
Utility Plant	**$15,825.3**	$ 7,490.7
Accumulated depreciation and amortization	**(7,299.4)**	(3,318.5)
Net utility plant	**8,525.9**	4,172.2
Gas and oil producing properties, full cost method		
United States cost center	**923.6**	—
Canadian cost center	**19.7**	—
Accumulated depletion	**(9.1)**	—
Net gas and oil producing properties	**934.2**	—
Other property, at cost, less accumulated depreciation	**86.6**	424.3
Net Property, Plant and Equipment	**9,546.7**	4,596.5
Investments and Other Assets		
Net assets of discontinued operations	**560.4**	245.4
Unconsolidated affiliates	**96.1**	151.7
Assets held for sale	**33.5**	—
Other investments	**54.1**	32.7
Total Investments	**744.1**	429.8
Current Assets		
Cash and cash equivalents	**193.0**	41.5
Accounts receivable (less reserve of $43.3 and $30.4, respectively)	**1,490.2**	368.1
Other receivables	**23.5**	15.7
Gas inventory	**322.5**	63.7
Underrecovered gas and fuel costs	**396.1**	90.9
Materials and supplies, at average cost	**68.7**	62.0
Electric production fuel, at average cost	**15.6**	32.0
Price risk management assets	**1,568.5**	90.7
Exchange gas receivable	**615.9**	—
Prepayments and other	**223.6**	41.4
Total Current Assets	**4,917.6**	806.0
Other Assets		
Regulatory assets	**517.1**	206.4
Intangible assets, less accumulated amortization	**3,603.6**	125.8
Deferred charges and other	**367.7**	264.1
Total Other Assets	**4,488.4**	596.3
Total Assets	**$19,696.8**	$ 6,428.6

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

Capitalization and Liabilities *as of December 31, (in millions)*	*2000*	*1999*
Capitalization		
Common Stock Equity	**$ 3,415.2**	$1,353.5
Preferred Stocks —		
Subsidiary Companies		
Series without mandatory redemption provisions	**83.6**	85.6
Series with mandatory redemption provisions	**49.1**	54.0
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures	**345.0**	345.0
Long-term debt, excluding amounts due within one year	**5,802.7**	1,775.8
Total Capitalization	**9,695.6**	3,613.9
Current Liabilities		
Current portion of long-term debt	**64.8**	173.5
Short term borrowings	**2,496.7**	651.3
Accounts payable	**1,117.1**	255.8
Dividends declared on common and preferred stocks	**1.0**	34.5
Customer deposits	**32.1**	27.1
Taxes accrued	**189.3**	33.6
Interest accrued	**78.0**	29.9
Price risk management liabilities	**1,529.2**	113.0
Refunds due customers within one year	**13.5**	7.5
Other regulatory liabilities — current	**8.6**	—
Exchange gas payable	**360.5**	—
Current deferred revenue	**451.5**	—
Other accruals	**551.1**	142.6
Total Current Liabilities	**6,893.4**	1,468.8
Other Liabilities and Deferred Credits		
Deferred income taxes	**1,806.2**	962.3
Deferred investment tax credits	**114.3**	90.6
Customer advances	**21.1**	19.1
Deferred credits	**337.3**	92.0
Noncurrent deferred revenue	**498.0**	—
Accrued liability for postretirement benefits	**272.5**	143.5
Other noncurrent liabilities	**58.4**	38.4
Total Other	**3,107.8**	1,345.9
Commitments and Contingencies (see notes)	—	—
Total Capitalization and Liabilities	**$19,696.8**	$6,428.6

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Statements of Consolidated Capitalization

As of December 31, (in millions)	*2000*	*1999*
Common shareholders' equity	**$3,415.2**	$1,353.5
Preferred Stocks, which are redeemable solely at option of issuer:		
Subsidiary companies—		
Cumulative preferred stock — $100 par value —		
4¼% series — 209,035 and 209,051 shares outstanding, respectively	**20.9**	20.9
4½% series — 79,996 shares outstanding	**8.0**	8.0
4.22% series — 106,198 shares outstanding	**10.6**	10.6
4.88% series — 100,000 shares outstanding	**10.0**	10.0
7.44% series — 41,890 shares outstanding	**4.2**	4.2
7.50% series — 34,842 shares outstanding	**3.5**	3.5
Premium and other	**2.8**	4.8
Cumulative preferred stock — no par value —		
Adjustable Rate Series A (stated value — $50 per share), 473,285 shares outstanding	**23.6**	23.6
Series without mandatory redemption provisions	**83.6**	85.6
Redeemable Preferred Stocks, subject to mandatory redemption requirements or whose redemption is outside the control of issuer:		
Subsidiary companies—		
Cumulative preferred stock — $100 par value —		
8.85% series — 0 and 37,500 shares outstanding, respectively	—	3.7
7¾% series — 22,244 and 27,798 shares outstanding, respectively	**2.2**	2.8
8.35% series — 39,000 and 45,000 shares outstanding, respectively	**3.9**	4.5
Cumulative preferred stock — no par value —		
6.50% series — 430,000 shares outstanding	**43.0**	43.0
Series with mandatory redemption provisions	**49.1**	54.0
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures	**345.0**	345.0
Long-term debt	**5,802.7**	1,775.8
Total capitalization	**$9,695.6**	$3,613.9

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Statements of Consolidated Long-Term Debt

As of December 31, (in millions)	*2000*	*1999*
NiSource Inc.:		
Debentures due November 1, 2006, with interest imputed at 7.78%	$ 108.5	$ —
Bay State Gas Company:		
Medium Term Notes —		
Interest rates between 6.00% and 9.20% with a weighted average interest rate of 6.96% and maturities between June 28, 2002 and February 15, 2028	168.5	183.5
Northern Utilities:		
Revolving Credit Agreement — due March 17, 2001	—	25.0
Medium Term Notes — Interest rates of 6.93% and 9.70% with a weighted average interest rate of 8.69% and maturities of September 1, 2010 and September 1, 2031	20.5	21.3
Total long-term debt of Bay State Gas Company	189.0	229.8
Columbia Energy Group:		
Debentures —		
6.61% Series B — due November 28, 2002	281.5	—
6.80% Series C — due November 28, 2005	281.5	—
7.05% Series D — due November 28, 2007	281.5	—
7.32% Series E — due November 28, 2010	281.5	—
7.42% Series F — due November 28, 2015	281.5	—
7.62% Series G — due November 28, 2025	229.2	—
Total	1,636.7	—
Unamortized discount on long-term debt	(130.5)	—
Subsidiary debt — Capitalized lease obligations	2.4	—
Total long-term debt of Columbia Energy Group	1,508.6	—
EnergyUSA, Inc. and subsidiaries:		
Notes Payable —		
Interest rates between 6.12% and 12.00% with a weighted average interest rate of 8.71% and various maturities between September 6, 2003 and February 6, 2010	2.3	154.3
Total long-term debt of EnergyUSA, Inc.	2.3	154.3
NiSource Capital Markets, Inc.:		
Subordinated Debentures — Series A, 7¾%, due March 31, 2026	75.0	75.0
Senior Notes Payable — 6.78%, due December 1, 2027	75.0	75.0
Medium-term notes —		
Issued at interest rates between 7.38% and 7.99%, with a weighted average interest rate of 7.66% and various maturities between April 1, 2004 and May 5, 2027	300.0	300.0
Total long-term debt of NiSource Capital Markets, Inc.	450.0	450.0
NiSource Development Company, Inc.:		
NDC Douglas Properties, Inc. — Notes Payable —		
Interest rates between 6.72% and 8.38% with a weighted average interest rate of 7.90% and maturities through January 1, 2008	16.9	21.3
Total long-term debt of NiSource Development Company, Inc.	16.9	21.3
NiSource Finance Corp.:		
Long-Term Notes —		
7½% — due November 15, 2003	750.0	—
7⅝% — due November 15, 2005	900.0	—
7⅞% — due November 15, 2010	1,000.0	—
Unamortized discount on long-term debt	(24.4)	—
Total long-term debt of NiSource Finance Corp.	2,625.6	—
Northern Indiana Public Service Company:		
First mortgage bonds —		
Series T, 7½% — due April 1, 2002	38.0	38.5
Series NN, 7.10% — due July 1, 2017	55.0	55.0
Pollution control notes and bonds —		
Issued at interest rates between 4.55% and 5.70%, with a weighted average interest rate of 4.78% and various maturities between October 1, 2003 and April 1, 2019	233.5	237.0
Medium-term notes —		
Issued at interest rates between 6.50% and 7.69%, with a weighted average interest rate of 7.06% and various maturities between June 3, 2002 and August 4, 2027	578.0	593.0
Unamortized premium and discount on long-term debt, net	(2.7)	(3.1)
Total long-term debt of Northern Indiana Public Service Company	901.8	920.4
Total long-term debt, excluding amount due within one year	$5,802.7	$1,775.8

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Statements of Consolidated Common Shareholders' Equity

(Dollars in millions)

	Common Shares	*Treasury Shares*	*Additional Paid-In Capital*	*Retained Earnings*	*Unearned Employee Compensation*	*Accumulated Other Comprehensive Income*	*Total*	*Comprehensive Income*
Balance, January 1, 1998	$870.9	$(363.9)	$ 89.8	$667.8	$(2.6)	$2.8	$1,264.8	
Comprehensive Income:								
Net income				193.9			193.9	$193.9
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized (net of income tax of $0.9)						1.4	1.4	1.4
Realized (net of income tax of $1.3)						(2.2)	(2.2)	(2.2)
Gain/loss on foreign currency translation:								
Unrealized						(1.2)	(1.2)	(1.2)
Realized						0.2	0.2	0.2
Total Comprehensive Income								$192.1
Dividends:								
Common shares				(116.6)			(116.6)	
Treasury shares acquired		(204.0)	—				(204.0)	
Issued:								
Employee stock purchase plan		0.3	0.9				1.2	
Long-term incentive plan		8.6	0.6		(1.1)		8.1	
Amortization of unearned compensation					1.9		1.9	
Other			3.0	(0.8)			2.2	
Balance, December 31, 1998	$870.9	$(559.0)	$ 94.3	$744.3	$(1.8)	$1.0	$1,149.7	
Comprehensive Income:								
Net income				160.4			160.4	$160.4
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized (net of income tax of $1.1)						1.8	1.8	1.8
Realized (net of income tax of $0.4)						0.7	0.7	0.7
Gain/loss on foreign currency translation:								
Unrealized						0.6	0.6	0.6
Realized						1.0	1.0	1.0
Total Comprehensive Income								$164.5
Dividends:								
Common shares				(129.1)			(129.1)	
Treasury shares acquired		(126.5)					(126.5)	
Issued:								
Employee stock purchase plan		0.5	1.1				1.6	
Long-term incentive plan		3.9	0.2		(0.6)		3.5	
Other acquisition		2.7	0.9				3.6	
Bay State acquisition		205.9	109.7				315.6	
Amortization of unearned compensation					3.5		3.5	
Equity contracts			(34.0)				(34.0)	
Other			2.2	(1.1)			1.1	
Balance, December 31, 1999	$870.9	$(472.5)	$ 174.4	$744.5	$ 1.1	$5.1	$1,353.5	
Comprehensive Income:								
Net income				156.9			156.9	$156.9
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized (net of income tax of $2.4)						(3.2)	(3.2)	(3.2)
Realized (net of income tax of $1.3)						2.1	2.1	2.1
Gain/loss on foreign currency translation:								
Unrealized						0.4	0.4	0.4
Realized						—	—	—
Total Comprehensive Income								$156.2
Dividends:								
Common shares				(98.3)			(98.3)	
Treasury shares acquired		(65.9)					(65.9)	
Issued:								
Columbia acquisition	0.7		1,760.5				1,761.2	
Reduction of credit facility	0.1		280.8				280.9	
Long-term incentive plan	—	22.7	2.2		(14.0)		10.9	
Formation of new NiSource	(869.7)	515.1	354.6				—	
Amortization of unearned compensation					6.8		6.8	
Equity contracts			7.4				7.4	
Other		.6	5.2	(3.3)			0.8	
Balance, December 31, 2000	$ 2.0	$ —	$2,585.1	$829.8	$(6.1)	$4.4	$3,415.2	

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Statements of Common Consolidated Shareholders' Equity (Continued)

Shares

	Common Shares	Treasury Shares
	(in thousands)	
Balance January 1, 1998	147,784	(23,472)
Treasury shares acquired		(7,310)
Issued:		
Employee stock purchase plan		43
Long-term incentive plan		485
Balance December 31, 1998	147,784	(30,254)
Treasury shares acquired		(4,821)
Issued:		
Employee stock purchase plan		60
Long-term incentive plan		194
Bay State acquisition		11,042
Other acquisition		134
Balance December 31, 1999	147,784	(23,645)
Treasury shares cancelled	(26,410)	26,410
Treasury shares acquired		(3,971)
Issued:		
Columbia acquisition	72,453	
Stock issuance	11,500	
Employee stock purchase plan		62
Long-term incentive plan	226	1,144
Balance December 31, 2000	205,553	0

Notes to Consolidated Financial Statements

1. HOLDING COMPANY STRUCTURE

NiSource Inc. (NiSource) is an energy holding company that provides natural gas, electricity and other products and services to 3.6 million customers located within the energy corridor that runs from the Gulf Coast through the Midwest to New England. NiSource, organized as an Indiana holding company in 1987 under the name of NIPSCO Industries, Inc., changed its name to NiSource Inc. on April 14, 1999. Subsequent to the completion of the acquisition of Columbia Energy Group (Columbia) on November 1, 2000, as discussed in Note 3 below, NiSource became a Delaware corporation. NiSource is a registered holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act), and derives substantially all its revenues and earnings from the operating results of its 15 direct subsidiaries.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Principles of Consolidation.
The consolidated financial statements include the accounts of NiSource and its majority-owned subsidiaries after the elimination of all intercompany accounts and transactions. Investments for which at least a 20% interest is owned and certain joint ventures are accounted for under the equity method. Investments with less than a 20% interest are accounted for under the cost method. Certain reclassifications were made to conform the prior years' financial statements to the current presentation.

B. Diluted Average Common Shares Computation.
Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effect of the various long-term incentive compensation plans. For 2000, the weighted average shares outstanding for diluted EPS also includes the incremental effect of another forward equity contract associated with the Stock Appreciation Income Linked Securities[SM] (SAILS[SM]). For 1999,

the incremental effect of common shares associated with the equity forward share purchase contract, calculated under the reverse treasury stock method is also included in the weighted average shares outstanding for diluted EPS. See Note 12B for description of the equity forward share purchase contract.

The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

Diluted Average Common Shares Computation	*2000*	*1999*	*1998*
Denominator (thousands)			
Basic average common shares outstanding	**134,470**	124,343	120,778
Dilutive potential common shares	**1,341**	996	557
Diluted Average Common Shares	**135,811**	125,339	121,335

C. Cash and Cash Equivalents.
NiSource considers all highly liquid short-term investments to be cash equivalents.

D. Basis of Accounting for Rate-Regulated Subsidiaries.
Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. NiSource's rate-regulated subsidiaries follow the accounting and reporting requirements of SFAS No. 71. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of SFAS No. 71. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result, unless some form of transition cost recovery is established by the appropriate regulatory body which would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets during such recovery period. If NiSource will not be able to continue to apply the provisions of SFAS No. 71, NiSource will have to apply the provisions of SFAS No. 101 "Regulated Enterprises — Accounting for the Discontinuation of Application of FASB Statement No. 71." In management's opinion, NiSource's regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

Regulatory assets and liabilities were comprised of the following items:

At December 31, (in millions)	*2000*	*1999*
Assets		
Reacquisition premium on debt (see Note 14)	**$ 36.2**	$ 39.7
R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation (see Note 2G)	**49.7**	53.9
Bailly scrubber carrying charges and deferred depreciation (see Note 2G)	**6.4**	7.3
Postemployment and other postretirement costs (see Note 10)	**211.2**	67.2
Retirement income plan costs	**21.1**	—
Environmental costs	**88.8**	—
FERC Order No. 636 transition costs	**7.9**	—
Net regulatory effects of accounting for income taxes (see Note 2R)	**75.7**	20.7
Underrecovered gas and fuel costs	**396.1**	86.7
Depreciation (see Note 2G)	**39.9**	—
Other	**37.6**	14.1
Total Assets	**$970.6**	$289.6
Liabilities		
Rate refunds and reserves	**$ 13.5**	$ 7.5
Other	**8.6**	—
Total Liabilities	**$ 22.1**	$ 29.5

Regulatory assets of approximately $803.8 million are not presently included in the rate base and consequently are not earning a return on investment. These regulatory assets are being recovered through cost of service. The remaining recovery periods generally range from 1 to 15 years. Regulatory assets of approximately $196.6 million require specific rate action. All regulatory assets are probable of recovery.

E. Utility Plant and Other Property and Related Depreciation and Maintenance.
Property, plant and equipment (principally utility plant) are stated at cost. The cost of utility and other plant of the rate-regulated subsidiaries includes an allowance for funds used during construction (AFUDC). Property, plant and equipment of other subsidiaries includes interest during construction (IDC). The 2000 before-tax rates for AFUDC and IDC were 6.4% and 6.8%, respectively. The 1999 and 1998 before-tax rates for AFUDC were 5.5% and 6.0%, respectively.

The regulated subsidiaries provide depreciation on a straight-line method over the remaining service lives of the electric, gas and common properties.

The depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended, December 31, 2000, 1999 and 1998 were as follows:

	2000	1999	1998
Electric	**3.7%**	3.7%	3.7%
Gas	**4.6%**	4.4%	5.1%

The regulated subsidiaries follow the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, together with the cost of removal less salvage, is charged to the accumulated provision for depreciation.

Net utility plant includes amounts allocated to utility plant in excess of the original cost as part of purchase price allocations associated with the acquisition of certain utility businesses, net of accumulated depreciation. Net plant acquisition adjustments were $553.4 million and $568.3 million at December 31, 2000, and December 31, 1999, respectively, and are being amortized over forty-year periods from the respective dates of acquisition.

F. Gas and Oil Producing Properties.
NiSource's subsidiaries engaged in exploring for and developing gas and oil reserves follow the full cost method of accounting. In accordance with generally accepted accounting principles, the oil and gas properties were written up to their fair value as of November 1, 2000. Under the full cost method of accounting, all productive and nonproductive costs directly identified with acquisition, exploration and development activities including certain payroll and other internal costs are capitalized. Depletion is based upon the ratio of current year revenues to expected total revenues, utilizing current prices, over the life of production. If such capitalized costs exceed the sum of the estimated present value of the net future gas and oil revenues and the lower of cost or estimated value of unproved properties, an amount equivalent to the excess is charged to current depletion expense. Gains or losses on the sale or other disposition of gas and oil properties are normally recorded as adjustments to capitalized costs, except in the case of a sale of a significant amount of properties, which would be reflected in the income statement.

G. Carrying Charges and Deferred Depreciation.
Upon completion of R. M. Schahfer Units 17 and 18, Northern Indiana Public Service Company (Northern Indiana) capitalized the carrying charges and deferred depreciation in accordance with orders of the Indiana Utility Regulatory Commission (IURC) until the cost of each unit was allowed in rates. Such carrying charges and deferred depreciation are being amortized over the remaining life of each unit.

Northern Indiana has capitalized carrying charges and deferred depreciation and certain operating expenses relating to its scrubber service agreement for its Bailly Generating Station in accordance with an order of the IURC. The accumulated balance of the deferred costs and related carrying charges is being amortized over the remaining life of the scrubber service agreement.

In Columbia Gas of Ohio, Inc.'s (Columbia of Ohio) 1999 rate agreement, the Public Utilities Commission of Ohio (PUCO) authorized Columbia of Ohio to revise its depreciation accrual rates for the period January 1, 1999, through December 31, 2004. The revised depreciation rates are lower than those which would have been utilized if Columbia of Ohio were not subject to regulation. The amount of depreciation that would have been recorded for 2000 had Columbia of Ohio not been subject to rate regulation is $34.6 million, an $21.2 million increase over the $13.4 million reflected in rates. Accordingly, a regulatory asset has been established in the amount of $39.9 million at December 31, 2000.

H. Amortization of Software Costs.
External and incremental internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of the project. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis over a period of five to ten years.

I. Intangible Assets.
Intangible assets are recorded at cost and are amortized on a straight-line basis. The excess of cost over the fair value of the net assets acquired in an acquisition is recorded as goodwill. Goodwill assets of $3.6 billion and $125.7 million are reported at December 31, 2000, and December 31, 1999, respectively. The goodwill associated with the Columbia acquisition is being amortized over forty years, while goodwill associated with other acquisitions is being amortized over a weighted average period of twenty-seven years. Other intangible assets, generally representing agreements not to compete, were approximately $6.9 million and $12.8 million at December 31, 2000, and December 31, 1999, respectively, and are being amortized over periods of four to eight years. The recoverability of intangible assets is assessed on a periodic basis to confirm that expected future cash flows will be sufficient to support the recorded intangible assets. Accumulated amortization of intangible assets at December 31, 2000, and December 31, 1999, was approximately $20.7 million and $9.9 million, respectively.

J. Revenue Recognition.
Except as discussed below, revenues are recorded as products and services are delivered. However, utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include an estimate for electric and gas delivered. Cash received in advance from sales of commodities to be delivered in the future is deferred and recognized as income upon delivery of the commodity. Effective January 1, 1999, revenues relating to energy trading operations are recorded based upon changes in the fair values, net of reserves, of the related energy trading contracts.

K. Estimated Rate Refunds.
Certain rate-regulated subsidiaries collect revenues subject to refund pending final determination in rate proceedings. In connection with such revenues, estimated rate refund liabilities are recorded which reflect management's current judgment of the ultimate outcome of the proceedings. No provisions are made when, in the opinion of management, the facts and circumstances preclude a reasonable estimate of the outcome.

L. Accounts Receivable Sales Program.
NiSource enters into agreements with third parties to sell certain accounts receivable without recourse. These sales are reflected as reductions of accounts receivable in the accompanying consolidated balance sheets and as operating cash flows in the accompanying consolidated statements of cash flows. The costs of this program, which are based upon the purchasers' level of investment and borrowing costs, are charged to other income in the accompanying consolidated statements of income.

M. Use of Estimates.
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Fuel Adjustment Clause.
All metered electric rates contain a provision for adjustment in charges for electric energy to reflect increases and decreases in the cost of fuel and the fuel cost of purchased power through operation of a fuel adjustment clause. As prescribed by order of the IURC applicable to metered retail rates, the adjustment factor has been calculated based on the estimated cost of fuel and the fuel cost of purchased power in a future three month period. If two statutory requirements relating to expense and return levels are satisfied, any under recovery or over recovery caused by variances between estimated and actual cost in a given three month period will be included in a future filing. Northern Indiana records any under recovery or over recovery as a current regulatory asset or current liability until such time as it is billed or refunded to its customers. The fuel adjustment factor is subject to a quarterly hearing by the IURC and remains in effect for a three month period.

O. Gas Cost Adjustment Clause.
NiSource's gas distribution subsidiaries defer differences between gas purchase costs and the recovery of such costs in revenues, and adjust future billings for such deferrals on a basis consistent with applicable state approved tariff provisions.

P. Natural Gas in Storage.
Both the last-in, first-out (LIFO) inventory methodology and the weighted average methodology are used to value natural gas in storage. Based on the average cost of gas using the LIFO method in December 2000 and December 1999, the estimated replacement cost of gas in storage at December 31, 2000, and December 31, 1999, exceeded the stated LIFO cost by $791.1 million and $48.9 million, respectively. Inventory valued using LIFO was $257.2 million and $23.0 million at December 31, 2000, and December 31, 1999, respectively. Inventory valued using the weighted average methodology was $65.3 million and $40.8 million at December 31, 2000, and December 31, 1999, respectively.

Q. Accounting for Risk Management Activities.
NiSource is exposed to commodity price risk in its natural gas and electric operations. A variety of commodity-based derivative financial instruments are utilized to reduce this price risk. When these derivatives are used to reduce price risk in non-trading operations such as activities in gas supply for regulated gas utilities, certain customer choice programs for residential customers and other retail customer activity, gains and losses on these derivative financial instruments are deferred as assets and liabilities and are recognized in earnings concurrent with the disposition of the underlying physical commodity. In certain circumstances, a derivative financial instrument will serve to hedge the acquisition cost of natural gas injected into storage. In this situation, the gain or loss on the derivative financial instrument is deferred as part of the cost basis of gas in storage and recognized upon the ultimate disposition of the gas. If a derivative financial instrument contract is terminated early because it is probable that a transaction or forecasted transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative financial instrument is terminated for other economic reasons, any gains or losses as of the termination date is deferred and recorded when the associated transaction or forecasted transaction affects earnings.

NiSource's exploration and production company utilizes commodity price swaps and basis swaps. Swaps are negotiated and executed over-the-counter and are structured to provide the same risk protection as futures and options. Basis swaps are used to manage risk by fixing the basis or differential that exists between a delivery location index and the commodity futures prices. Premiums paid for option agreements are included as current assets in the consolidated balance sheets until they are exercised or expire. Margin requirements for natural gas are also recorded as current assets. Unrealized gains and losses on all futures contracts are deferred on the consolidated balance sheets as either current assets or other deferred credits. Realized gains and losses from the settlement of natural gas futures, options and swaps are included in revenues concurrent with the associated physical transaction.

NiSource also uses derivative financial instruments in connection with trading activities at its power trading and certain gas marketing and trading operations. These derivatives, along with the related physical contracts, are recorded at fair value pursuant to Emerging Issues Task Force (EITF) Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities." Because the majority of trading activities started in 1999, the impact of adopting EITF Issue No. 98-10 on January 1, 1999, was insignificant. Transactions related to electric utility system load management do not qualify as a trading activity under EITF Issue No. 98-10 and are accounted for on an accrual basis. NiSource refers to this activity as Power Management.

R. Income Taxes and Investment Tax Credits.
NiSource records income taxes to recognize full interperiod tax allocations. Under the liability method of income tax accounting, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Previously recorded investment tax credits of the regulated subsidiaries were deferred and are being amortized over the life of the related properties to conform with regulatory policy.

S. Environmental Expenditures.
NiSource accrues for costs associated with environmental remediation obligations when such costs are probable and can be reasonably estimated, regardless of when expenditures are made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and, when possible, site-specific costs. The reserve is adjusted as further information is developed or circumstances change. Rate-regulated subsidiaries applying SFAS No. 71 establish a regulatory asset on the balance sheet to the extent that future recovery of environmental remediation costs is probable through the regulatory process.

T. Stock Options and Awards.
Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), encourages, but does not require, entities to adopt the fair value method of accounting for stock-based compensation plans. This statement, if adopted, would require the value of the option at the date of grant be amortized over the vesting period of the option. NiSource continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25).

3. ACQUISITIONS

On November 1, 2000, NiSource completed its acquisition of Columbia for an aggregate consideration of approximately $6 billion, primarily consisting of 72.4 million shares of common stock valued at $1,761 million, approximately $3,888 million paid in cash and SAILS℠ (units each consisting of a zero coupon debt security coupled with a forward equity contract in NiSource shares) valued at $114 million. NiSource also assumed approximately $2 billion in Columbia debt. NiSource has accounted for the acquisition in accordance with the purchase method of accounting as of the effective date of the transaction. The purchase price has been allocated to the assets and liabilities acquired based on the fair value of those assets and liabilities as of the acquisition date. Based upon the nature of the regulatory environment in which Columbia rate regulated subsidiaries operate, the fair value of rate regulated assets and liabilities are generally considered to be historical cost. The excess of the aggregate purchase price over the estimated fair value of the net assets acquired, approximately $3.6 billion, has been reflected as goodwill in the consolidated financial statements and is being amortized on a straight-line basis over forty years. NiSource may make adjustments to the allocation of the purchase price during 2001 for changes in its preliminary evaluations and assumptions based on review of additional information and the ultimate resolution of contingencies existing at the acquisition date. NiSource does not anticipate that the final evaluation of these issues will materially affect the allocation of the purchase price.

Assets acquired and liabilities assumed in the acquisition of Columbia were comprised of the following:

(in billions)	*2000*
Assets Aquired:	
Utility plant, net of accumulated depreciation	$ 4.3
Oil and gas properties, net of accumulated depletion	1.0
Intangible assets	3.6
Other current assets	1.9
Other noncurrent assets	0.5
Total Assets	11.3
Liabilities Assumed:	
Long-term debt	1.8
Short-term debt	0.2
Other current liabilities	1.6
Other noncurrent liabilities	1.7
Total Liabilities	5.3
Net Assets Acquired	$ 6.0

On February 12, 1999, the acquisition of Bay State Gas Company (Bay State) was completed for approximately $560.1 million in cash and NiSource common shares. The $237.7 million cash portion was partially financed by the issuance of Corporate Premium Income Equity Securities (Corporate PIES) (See Note 16). The acquisition was accounted for as a purchase, and the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values.

On a pro forma basis, NiSource's consolidated results of operations for the twelve months ended December 31, 2000, and December 31, 1999, assuming the acquisition of Columbia occurred on January 1, 1999, would have been:

UNAUDITED

Twelve Months Ended December 31, ($ in millions)	*2000*	*1999*
Operating revenue	**8,069.7**	6,106.9
Operating income	**953.9**	1,032.5
Net income	**153.4**	132.5

On April 1, 1999, NiSource acquired the stock of TPC Corporation (TPC), a Houston-based natural gas marketing and storage company, for approximately $150 million in cash. The acquisition was accounted for as a purchase, with the purchase price allocated to the assets and liabilities acquired based on their estimated fair values, including estimates with respect to the tax bases of certain assets acquired. As a result of the TPC acquisition, NiSource had an indirect investment in the amount of $126.0 million, representing a 77.3% interest in Market Hub Partners, L.P. (MHP). In the fourth quarter of 1999, NiSource acquired the remaining interests in MHP. On September 18, 2000, NiSource sold its ownership interests in MHP to Duke Energy Gas Transmission for $250 million in cash plus the assumption of $150 million in debt. This transaction resulted in a pre-tax gain of $51.9 million, which is reflected as a component of other, net under other income (deductions) in the accompanying consolidated statements of income. Results for periods presented prior to the acquisition of TPC are not impacted significantly by pro forma results of TPC applied to those periods.

4. RESTRUCTURING ACTIVITIES

During 2000, NiSource developed and began the implementation of a plan to restructure its operations as a result of the acquisitions discussed above. The restructuring plan included a severance program, a transition plan to implement operational efficiency throughout NiSource's operations and a voluntary early retirement program.

As a result of the restructuring plan, it is estimated that approximately 900 management, professional, administrative and technical positions have been or will be eliminated. In October, 2000, NiSource recorded a pre-tax charges of $5.8 million in operating expense representing severance and related benefits costs. This charge included $5.1 million of estimated termination benefits. In addition, NiSource assumed $66.9 million in liabilities related to the restructuring of Columbia's operations representing severance and related benefits costs and relocation of certain operations. As of December 31, 2000, approximately 383 employees had been terminated as a result of the restructuring plan. At December 31, 2000, the consolidated balance sheet reflected a liability of $65.4 million related to the restructuring plan.

5. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The Securities and Exchange Commission (SEC) in its order approving the merger with Columbia required NiSource to divest its water utilities within three years from the date of the merger. In January 2001, NiSource completed its formal plan to dispose of its water utilities within one year to comply with the SEC order. The water utilities operations are reported as discontinued operations.

Results from discontinued operations of the water utilities are provided in the following table:

Twelve months ended December 31, ($ in millions)	*2000*	*1999*	*1998*
Revenues from discontinued operations	**104.7**	105.1	90.0
Income from discontinued operations	**35.1**	14.7	11.7
Income taxes	**25.3**	8.2	6.4
Net Income from discontinued operations	**9.8**	6.5	5.3

On May 22, 2000, as a result of its ongoing strategic assessment, Columbia announced that it decided to sell Columbia Propane Corporation (Columbia Propane), a propane marketer. Columbia also announced its decision to sell Columbia Petroleum Corporation (Columbia Petroleum), a diversified petroleum distribution company. On January 31, 2001, Columbia signed a definitive agreement to sell the stock and assets of Columbia Propane to AmeriGas Partners L.P. (AmeriGas) for approximately $208 million, including $53 million of AmeriGas partnership common units. The transaction, subject to customary conditions, including Hart-Scott Rodino regulatory approval, is likely to close early in 2001. The net assets of the water utilities, Columbia Propane and Columbia Petroleum are reported as net assets of discontinued operations on the consolidated balance sheet.

The net assets of the discontinued operations were as follows:

As of December 31, (in millions)	*2000*	*1999*
Accounts receivable, net	**$ 107.8**	$ 13.7
Property, plant and equipment, net	**891.3**	650.1
Other assets	**173.8**	51.6
Current liabilities	**(148.2)**	(65.8)
Debt	**(169.4)**	(199.4)
Other liabilities	**(294.9)**	(204.8)
Net Assets of Discontinued Operations	**$ 560.4**	$ 245.4

Subsequent to the merger, certain other assets were written down to their fair value. The write-down of $65.8 million, reported as loss on asset impairment in the income statement, left a remaining carrying amount of $33.5 million reported as assets held for sale on the balance sheet as of December 31, 2000. The assets impaired were those belonging to a utility line locating company included in the Other Products and Services segment, an investment in a company included in the Gas Distribution segment and other energy related assets included in the Gas Marketing segment.

6. IMPACT OF ACCOUNTING STANDARDS

A. SFAS No. 133 — Accounting for Derivative Instruments and Hedging Activities.
The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998 and SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133" in June 1999 and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of FASB Statement No. 133" in June 2000. Statement No. 133 as amended standardizes the accounting for derivative instruments, including certain derivative instruments embedded in hybrid contracts, by requiring that a company recognize those items as assets or liabilities in the balance sheet and measure them at fair value. The standard also suggests in certain circumstances commodity based contracts may qualify as derivatives. Special accounting within this statement generally provides for matching of the timing of gain or loss recognition of derivative instruments qualifying as a hedge with the recognition of changes in the fair value of the hedged asset or liability through earnings, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment. The statement also provides that the effective portion of a hedging instrument's gain or loss on a forecasted transaction be initially reported in other comprehensive income and subsequently reclassified into earnings when the hedged forecasted transaction affects earnings. Unless those specific hedge accounting criteria are met, SFAS No. 133 requires that changes in derivatives' fair value be recognized currently in earnings.

NiSource is a party to a number of contracts that have elements of a derivative instrument. These contracts include, among others, binding purchase orders, contracts which provide for the delivery of natural gas, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet normal sales commitments. Although many of these contracts have the requisite elements of a derivative instrument, NiSource believes these contracts are not subject to the accounting requirements of SFAS 133 because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating the business or the value of the contract is directly associated with the price or value of a service. Other contracts do not meet the definition of a derivative instrument because these represent requirements-based commitments.

The adoption of this statement on January 1, 2001 is estimated to result in a cumulative after-tax increase to net income of approximately $5 million and an after-tax reduction to other comprehensive income of approximately $20 million. The adoption is also estimated to result in approximately $195 million of derivatives to be recognized on the consolidated balance sheet as assets and approximately $220 million of derivatives to be recognized as liabilities.

B. SFAS No. 140 — Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.
In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." This statement replaces FASB Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS No. 125). It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS No. 125's provisions without reconsideration.

This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

C. SAB No. 101 — Revenue Recognition in Financial Statements. In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." This SAB summarizes certain of the SEC Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the SEC issued SAB No. 101B, which delayed the implementation of SAB 101 until no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. As a result of the application of SAB 101, NiSource restated certain results of its power trading operations on a gross basis. This resulted in an increase in 2000 revenues of $485.2 million and cost of sales of $472.9 million. 1999 revenues increased $237.8 million and cost of sales increased $230.4 million as a result of the implementation. This restatement resulted in no change to operating income.

7. REGULATORY MATTERS

Fuel Adjustment Clause.
On August 18, 1999, the IURC issued a generic order (Generic Order) which established new guidelines for the recovery of purchased power costs through fuel adjustment clauses. The IURC ruled that each utility had to establish a "benchmark" which is the utility's highest on-system fuel cost per kilowatt-hour (kwh) during the most recent annual period. The IURC stated that if the weekly average of a utility's purchased power costs were less than the "benchmark," these costs per kwh should be considered net energy costs which are presumed "fuel costs included in purchased power." If the weekly average of a utility's purchased power costs exceeded the "benchmark," the utility would need to submit additional evidence demonstrating the reasonableness of these costs. The Office of Utility Consumer Counselor (OUCC) appealed the Generic Order to the Indiana Court of Appeals. Northern Indiana applied the Generic Order's guidelines to purchased power transactions sought to be recovered for February, March and April 2000.

By an order issued February 23, 2000, the IURC approved the recovery of Northern Indiana's purchased power transactions during the months of July, August and September 1999. Northern Indiana and the OUCC filed petitions for reconsideration of the February 23, 2000 Order.

On June 30, 2000, Northern Indiana and the OUCC filed a joint motion to withdraw petitions for reconsideration and requested IURC approval of a Stipulation and Agreement (Agreement). The Agreement establishes a recovery mechanism for certain purchase power transactions for the months of July, August and September 2000 that will be utilized in lieu of the IURC's Generic Order guidelines. The Agreement calls for Northern Indiana to return, by an adjustment to fuel adjustment clause factors, $1.8 million to retail ratepayers during the period from November 2000 through April 2001. Northern Indiana has established a reserve for these amounts. By its order issued August 9, 2000, the IURC approved the Agreement. On September 5, 2000, the Indiana Court of Appeals issued an order approving a joint stipulation for dismissal, with prejudice, of the OUCC's appeal of the Generic Order.

Gas Cost Adjustment Clause.
On August 11, 1999, the IURC approved a flexible gas cost adjustment mechanism for Northern Indiana. Under the new procedure, the demand component of the adjustment factor will be determined, after hearings and IURC approval, and made effective on November 1 of each year. The demand component will remain in effect for one year until a new demand component is approved by the IURC. The commodity component of the adjustment factor will be determined by monthly filings, which will become effective on the first day of each calendar month, subject to refund. The monthly filings do not require IURC approval but will be reviewed by the IURC during the annual hearing that will take place regarding the demand component filing. Northern Indiana made its annual filing on September 1, 2000.

Northern Indiana's gas cost adjustment factor also includes a gas cost incentive mechanism (GCIM) which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Other.
During the course of a regularly scheduled review, referred to as a Level 1 review, the staff of the Indiana Utility Regulatory Commission (IURC) made a preliminary determination, based on unadjusted historical financial information filed by Northern Indiana's electric operation, that Northern Indiana was earning returns that were in excess of its last rate order and generally established standards. Despite holding meetings with the IURC staff during 2000 to explain several adjustments that needed to be made to the filed information to make such an analysis meaningful, the staff has recommended that a formal investigation be performed. The IURC has ordered that an investigation begin. Management is unable at this time to determine if a broader analysis, which would be performed through a formal investigation, could result in a rate adjustment that would be higher or lower than currently allowed rates. Management intends to vigorously oppose any efforts to reduce rates that may result from this investigation.

8. RISK MANAGEMENT ACTIVITIES

NiSource uses certain commodity-based derivative financial instruments to manage certain risks inherent in its business. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. The open positions resulting from risk management activities are managed in accordance with strict policies which limit exposure to market risk and require daily reporting to management of potential financial exposure.

NiSource uses futures contracts, options and swaps to hedge a portion of its price risk associated with its non-trading activities in gas supply for its regulated gas utilities, certain customer choice programs for residential customers and other retail customer activity. At December 31, 2000, NiSource had futures contracts representing the hedge of natural gas sales in the notional amount of 10.7 billion cubic feet (Bcf) resulting in a deferred gain of $26.5 million.

NiSource's trading operations include the activities of its power trading business and non-affiliated transactions associated with TPC. NiSource employs a value-at-risk (VaR) model to assess the market risk of its energy trading portfolios. NiSource estimates the one-day VaR across all trading groups which utilize derivatives using either Monte Carlo simulation or variance/covariance at a 95% confidence level. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was $0.8 million, $2.7 million and $0.04 million and $0.4 million, $1.2 million and $0.01 million during 2000 and 1999, respectively. The daily VaR for the gas trading portfolio on an average, high and low basis was $2.3 million, $8.1 million and $0.5 million and $1.3 million, $2.1 million and $0.4 million during 2000 and 1999, respectively. NiSource implemented a VaR methodology in 1999 to introduce additional market sophistication and to recognize the developing complexity of its businesses.

The fair market value of NiSource electric trading assets and liabilities were $30.9 million and $42.6 million, respectively, at December 31, 2000, and $31.7 million and $54 million, respectively at December 31, 1999. The average fair market value of electric trading assets and liabilities were $36.6 million and $60 million, respectively at December 31, 2000, and $20.9 million and $32.4 million, respectively at December 31, 1999.

The fair market value of NiSource gas trading assets and liabilities were $1,578 million and $1,526 million, respectively, at December 31, 2000. The average fair market value of gas trading assets and liabilities were $520.8 million and $507.5 million, respectively, for the year ended December 31, 2000. The fair market value of NiSource gas trading assets and liabilities were both $59 million at December 31, 1999. December 1999 was the first month NiSource recorded gas trading assets and liabilities, therefore, there is no average to report for the year ended December 1999.

NiSource has recorded electric trading revenues and cost of sales of $485.2 million and $472.9 million, respectively, at December 31, 2000. NiSource has recorded electric trading revenues and cost of sales of $237.8 million and $230.4 million, respectively, at December 31, 1999. NiSource has recorded gas trading revenues and cost of sales of $2,032.8 million and $1,994.9 million, respectively, at December 31, 2000. NiSource has recorded gas trading revenues and cost of sales of $390.4 million and $388.2 million, respectively, at December 31, 1999.

Unrealized gains and losses on NiSource's trading portfolio are recorded as price risk management assets and liabilities. The market prices used to value price risk management activities reflect the best estimate of market prices considering various factors, including closing exchange and over-the-counter quotations and price volatility factors underlying the commitments. The accompanying Consolidated Balance Sheet reflects price risk management assets of $1,608.9 million and $90.7 million at December 31, 2000 and December 31, 1999, respectively, of which $1,568.5 million and $90.7 million were included in "Price risk management assets" and $40.4 million and $0.0 million were included under the caption "Prepayments and other" included in the Current Assets at December 31, 2000 and December 31, 1999, respectively. The accompanying Consolidated Balance Sheet also reflects price risk management liabilities (including net option premiums) of $1,568.6 million and $113.0 million of which $1,529.2 million and $113.0 million were included in "Price risk management liabilities" and $39.4 million and $0.0 million were included in "Other noncurrent liabilities" at December 31, 2000 and December 31, 1999, respectively.

NiSource's exploration and production company hedged a portion of its gas production that was subject to price volatility. At December 31, 2000, there were 7,676 open contracts representing a notional quantity amounting to 67.3 Bcf of commodity contracts for natural gas production through December 2002 at an average price of $3.66 per Mcf. Also at December 31, 2000, there were 23,009 open contracts representing a notional quantity amounting to 201.8 Bcf of basis contracts through 2005 at an average price of $.22 per Mcf. A total of $188.6 million of unrealized losses have been deferred on the consolidated balance sheets, at December 31, 2000, with respect to these open contracts. During the year ended December 31, 2000, $13.2 million of losses were realized on contracts settled.

NiSource entered into forward interest rate swaps to hedge the interest rate risk exposure associated with $1.6 billion of its anticipated financing of the Columbia acquisition debt. The swaps had an effective date of March 30, 2001. The interest rate swaps on the $600 million notional amount was scheduled to terminate on March 30, 2006, the interest rate swap on the $500 million notional amount was scheduled to terminate on March 30, 2011 and the interest rate swap on the $500 million amount was scheduled to terminate on March 30, 2031. Financing for the Columbia acquisition was completed on November 14, 2000, and as a result, the interest rate swaps referred to above were terminated early and the ineffective component of the change in the value of the swaps was charged to expense in the fourth quarter of 2000.

9. INCOME TAXES

The components of income tax expense are as follows:

Year Ended December 31,	*2000*	*1999*	*1998*
		($ in millions)	
Income Taxes			
Current			
Federal	**$ 81.3**	$86.4	$109.0
State	**14.2**	13.1	16.5
Total Current	**95.5**	99.5	125.5
Deferred			
Federal	**39.3**	(9.5)	(22.2)
State	**3.1**	(0.2)	(1.7)
Total Deferred	**42.4**	(9.7)	(23.9)
Deferred Investment Credits	**(7.8)**	(7.6)	(7.2)
Income Taxes Included in Continuing Operations	**130.1**	82.2	94.4
Income Taxes Related to Discontinued Operations	**21.9**	8.2	6.4
Total Income Taxes	**$152.0**	$90.4	$100.8

Total income taxes from continuing operations are different from the amount that would be computed by applying the statutory Federal income tax rate to book income before income tax. The major reasons for this difference are as follows:

Year Ended December 31,	*2000*		*1999*		*1998*	
			($ in millions)			
Book income from Continuing Operations before income taxes	**$277.2**		$236.1		$283.0	
Tax expense at statutory Federal income tax rate	**97.0**	**35.0%**	82.6	35.0%	99.1	35.0%
Increases (reductions) in taxes resulting from:						
Book depreciation over related tax depreciation	**2.8**	**1.0**	3.9	1.6	4.0	1.4
Amortization of deferred investment tax credits	**(7.8)**	**(2.8)**	(7.6)	(3.2)	(7.2)	(2.5)
State income taxes, net of federal income tax benefit	**10.2**	**3.7**	8.3	3.5	9.1	3.2
Reversal of deferred taxes provided at rates in excess of the current federal income tax rate	**(4.4)**	**(1.6)**	(5.5)	(2.3)	(6.5)	(2.3)
Low-income housing credits	**(5.8)**	**(2.1)**	(4.5)	(1.9)	(3.8)	(1.3)
Nondeductible amounts related to amortization of intangible assets and plant acquisition adjustments	**8.8**	**3.2**	0.4	0.2	0.4	0.1
Basis and stock sale differences	**19.2**	**6.9**	0.0	0.0	0.0	0.0
Other, net	**10.1**	**3.6**	4.6	1.9	(0.7)	(0.2)
Income Taxes from Continuing Operations	**$130.1**	**46.9%**	$ 82.2	34.8%	$ 94.4	33.4%

Deferred income taxes result from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The principal components of NiSource's net deferred tax liability are as follows:

At December 31,	*2000*	*1999*
	($ in millions)	
Deferred tax liabilities		
Accelerated depreciation and other property differences	**$1,776.1**	$ 943.8
Unrecovered gas and fuel costs	**138.1**	16.7
Other regulatory assets	**23.4**	27.6
Prepaid pension and other benefits	**63.9**	64.9
Reacquisition premium on debt	**13.7**	15.1
Writedown in FMV of Debt	**45.1**	—
Total Deferred Tax Liabilities	**2,060.3**	1,068.1
Deferred tax assets		
Deferred investment tax credits	**(50.8)**	(35.0)
Other postretirement/postemployment benefits	**(63.0)**	(53.3)
Gas Inventory	**(15.9)**	—
Tax loss carryforwards	**(32.7)**	—
Other	**(77.5)**	(25.0)
Total Deferred Tax Assets	**(239.9)**	(113.3)
Less: Deferred income taxes related to current assets and liabilities	**14.2**	(7.5)
Non-Current Deferred Tax Liability	**$1,806.2**	$ 962.3

10. PENSION AND OTHER POSTRETIREMENT BENEFITS

Noncontributory, defined benefit retirement plans cover the majority of employees. Benefits under the plans reflect the employees' compensation, years of service and age at retirement.

NiSource provides certain health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource.

The expected cost of such benefits is accrued during the employees' years of service. Current rates of rate regulated companies include postretirement benefit costs on an accrual basis, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. Cash contributions are remitted to grantor trusts.

Beginning in 2000, NiSource is reflecting the information presented below as of September 30 rather than December 31. The effect of utilizing September 30 rather than December 31 is not significant. The following tables provide a reconciliation of the plans' funded status and amounts reflected in NiSource's consolidated balance sheets at December 31:

($ in millions)	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 971.9**	$ 928.5	**$ 226.5**	$ 213.6
Service cost	**24.3**	18.6	**6.7**	4.7
Interest cost	**84.5**	68.2	**21.4**	16.3
Plan participants' contributions	—	—	**0.4**	1.2
Plan amendments	**0.5**	—	—	—
Additional liability for disabled participants	—	—	**2.4**	—
Actuarial (gain) loss	**(33.0)**	(57.9)	**(4.1)**	(16.6)
Acquisition of businesses	**760.8**	78.7	**255.4**	23.2
Special termination benefits	**8.0**	—	—	—
Benefits paid	**(48.2)**	(64.2)	**(11.6)**	(15.9)
Benefit obligation at end of year	**1,768.8**	971.9	**497.1**	226.5
Change in plan assets				
Fair value of plan assets at beginning of year	**1,207.0**	970.1	**30.0**	2.9
Actual return on plan assets	**49.5**	168.3	**0.5**	2.5
Employer contributions	**40.5**	40.7	**9.8**	12.7
Plan participants' contributions	—	—	**0.4**	1.2
Acquisition of businesses	**1,012.1**	92.1	**140.3**	26.6
Benefits paid	**(48.2)**	(64.2)	**(11.6)**	(15.9)
Fair value of plan assets at end of year	**2,260.9**	1,207.0	**169.4**	30.0
Funded status of plan at end of year	**492.1**	235.1	**(327.7)**	(196.5)
Unrecognized actuarial net gain	**(390.9)**	(151.6)	**(135.5)**	(108.8)
Unrecognized prior service cost	**90.9**	55.4	**5.6**	3.5
Unrecognized transition obligation	**18.7**	22.4	**144.6**	156.6
Fourth quarter contributions	**0.3**	—	**7.0**	—
Prepaid (Accrued) benefit cost	**$ 211.1**	$ 161.3	**$(306.0)**	$(145.2)

	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Weighted-average assumptions as of September 30,				
Discount rate assumption	**8.00%**	7.75%	**8.00%**	7.75%
Compensation growth rate assumption	**4.50%**	4.50%	**4.50%**	4.50%
Medical cost trend assumption	**n/a**	n/a	**5.25%**	5.00%
Assets earnings rate assumption	**9.00%**	9.00%	**9.00%**	9.00%

The following table provides the components of the plans expense for each of the three years:

($ in millions)	Pension Benefits 2000	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 2000	Other Benefits 1999	Other Benefits 1998
Net periodic cost						
Service cost	**$ 24.3**	$ 18.6	$ 15.9	**$ 6.7**	$ 4.7	$ 4.4
Interest cost	**84.5**	68.2	59.3	**21.4**	16.3	14.0
Expected return on assets	**(123.9)**	(93.9)	(81.3)	**(3.5)**	(2.3)	(0.2)
Amortization of transition obligation	**6.2**	6.3	5.4	**12.0**	12.0	10.9
Amortization of prior service cost	**7.0**	6.3	4.5	**0.3**	0.3	0.3
Amortization of (gain) loss	**(5.3)**	—	—	**(5.9)**	(5.6)	(5.8)
Special termination benefits	**8.0**	—	—	—	—	—
Net Periodic Benefits Cost (Benefit)	**$ 0.8**	$ 5.5	$ 3.8	**$31.0**	$25.4	$23.6

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% point increase	1% point decrease
Effect on service and interest components of net periodic cost	$ 2.8	$ (3.0)
Effect on accumulated postretirement benefit obligation	$21.5	$(29.3)

11. AUTHORIZED CLASSES OF CUMULATIVE PREFERRED AND PREFERENCE STOCKS

NiSource — 20,000,000 shares — Preferred — $0.01 par value. 4,000,000 shares are designated Series A Junior Participating Preferred Shares and are reserved for issuance pursuant to the Shareholder Purchase Rights Plan described in Common Shares.

The authorized classes of par value and no par value cumulative preferred and preference stocks of Northern Indiana are as follows: Cumulative Preferred — $100 par value — 2,400,000 shares; Cumulative Preferred — no par value — 3,000,000 shares; Cumulative Preference — $50 par value — 2,000,000 shares (none outstanding); and Cumulative Preference — no par value — 3,000,000 shares (none outstanding).

The preferred shareholders of Northern Indiana have no voting rights, except in the event of default on the payment of four consecutive quarterly dividends, or as required by Indiana law to authorize additional preferred shares, or by the Articles of Incorporation in the event of certain merger transactions.

The redemption prices at December 31, 2000, for the cumulative preferred stock, which is redeemable solely at the option of Northern Indiana, in whole or in part, at any time upon thirty days' notice, were as follows:

	Series	Redemption Price Per Share
Northern Indiana Public Service Company:		
Cumulative preferred stock —		
$100 par value —	4¼%	$101.20
	4½%	$100.00
	4.22%	$101.60
	4.88%	$102.00
	7.44%	$101.00
	7.50%	$101.00
Cumulative preferred stock — no par value — adjustable rate (6.00% at December 31, 2000), Series A (stated value $50 per share)		$ 50.00

The redemption prices at December 31, 2000, as well as sinking fund provisions, for the cumulative preferred stock subject to mandatory redemption requirements, or whose redemption is outside the control of Northern Indiana, were as follows:

Series	Redemption Price Per Share	Sinking Fund or Mandatory Redemption Provisions
Cumulative preferred stock — 8.35%	$100 par value — $102.95, reduced periodically	3,000 shares on or before July 1; increasing to 6,000 shares beginning in 2004; noncumulative option to double amount each year
7¾%	$103.70, reduced periodically	2,777 shares on or before December 1; noncumulative option to double amount each year
Cumulative preferred stock — 6.50%	No par value — $100.00 on October 14, 2002	430,000 shares on October 14, 2002

Sinking fund requirements with respect to redeemable preferred stocks outstanding at December 31, 2000, for each of the four years subsequent to December 31, 2001 were as follows:

Year Ending December 31,	($ in millions)
2002	0.6
2003	43.6
2004	0.9
2005	0.9

12. COMMON SHARES

As of December 31, 2000, NiSource has 400,000,000 of authorized common shares with a $0.01 par value. All references to numbers of common shares reported, including per share amounts and stock option data, have been adjusted to reflect the two-for-one stock split effective February 20, 1998.

A. Shareholder Rights Plan.
The Board of Directors of NiSource has adopted a Shareholder Rights Plan. Each Right, when exercisable, would initially entitle the holder to purchase from NiSource one one-hundredth of a share of Series A Junior Participating Preferred Stock, with $0.01 par value, at a price of $60 per one one-hundredth of a share. In certain circumstances, if an acquirer obtained 25% of NiSource's outstanding shares, or merged into NiSource or merged NiSource into the acquirer, the Rights would entitle the holders to purchase NiSource's or the acquirer's common shares for one-half of the market price. The Rights will not dilute NiSource's common shares nor affect earnings per share unless they become exercisable for common shares. The Plan was not adopted in response to any specific attempt to acquire control of NiSource. The Rights are not currently exercisable.

B. Equity Forward Share Purchase Contract.
During the second quarter of 1999, a forward purchase contract was entered into covering the purchase of up to 5% of NiSource's outstanding common shares. At the end of each quarterly period during the term of the forward purchase contract, NiSource had the option, but not the obligation, to settle the forward purchase contract with respect to all or a portion of the common shares held by the counterparty. The counterparty informed NiSource that approximately 5.6 million shares had been purchased at a weighted average cost of $26.90 per share. NiSource had the option to settle with the counterparty by means of physical, net cash or net share settlement. On a quarterly basis, NiSource paid the counterparty a fee based on the amount paid for common shares purchased by the counterparty, and the counterparty remitted dividends received on shares owned. All such amounts paid and remitted under the contract are reflected in equity contract costs of common shareholders' equity. On December 26, 2000, the contract was terminated and a new agreement was entered into that allowed NiSource to cash settle with the counterparty. The fair value of the new agreement was recorded on the balance sheet as of December 31, 2000.

13. LONG-TERM INCENTIVE PLANS

There are two long-term incentive plans for key management employees that were approved by shareholders on April 13, 1988 (1988 Plan) and April 13, 1994 (1994 Plan). The 1988 Plan, as amended and restated, and the 1994 Plan, as amended and restated, were re-approved by shareholders on April 14, 1999. The Plans permit the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights and performance units. Under the Plans, the exercise price of each option equals the market price of common stock on the date of grant. Each option has a maximum term of ten years and vests one year from the date of grant.

The 1988 Plan provided for the issuance of up to 5.0 million common shares to key employees through April 1998. On January 29, 2000, the Board of Directors of NiSource approved certain additional amendments to the 1994 Plan and on June 1, 2000, the 1994 Plan, as amended and restated, was approved by shareholders at the 2000 Annual Meeting of Shareholders of NiSource. The amended and restated 1994 Plan provides for the issuance of up to 11 million shares through April 2004, and permits contingent stock awards and dividend equivalents payable on grants of options, stock appreciation rights (SARs), performance units and contingent stock awards. At December 31, 2000, there were 9,578,000 shares reserved for future awards under the amended and restated 1994 Plan.

In connection with the acquisition of Bay State (see Note 3), all outstanding Bay State nonqualified stock options were replaced with NiSource nonqualified stock options. The replacement of such options did not change their original vesting provisions, terms or fair values. Information regarding these options can be found in the following tables about changes in nonqualified stock options under the caption "converted." In connection with the acquisition of Columbia, no options were converted or assumed.

SARs may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common shares, or a combination thereof. Restricted stock awards are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant. Restrictions on shares awarded in 1995 lapsed on January 27, 2000, and vested at 116% of the number awarded, due to attaining specific earnings per share and stock appreciation goals. Restrictions on shares awarded in 1998 lapsed two years from date of grant and vested at 100% of the number awarded. Restrictions on shares awarded in 2000 lapse three years from date of grant and vesting may vary from 0% to 200% of the number awarded, subject to specific performance goals. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. There were 667,500 and 513,500 restricted shares outstanding at December 31, 2000 and December 31, 1999, respectively.

The Nonemployee Director Stock Incentive Plan, which was approved by shareholders, provides for the issuance of up to 200,000 common shares to nonemployee directors. The Plan provides for awards of common shares which vest in 20% increments per year, with full vesting after five years. The Plan also allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age seventy, death or disability, any common shares not vested as of the date of termination are forfeited. As of December 31, 2000, 81,500 shares had been issued under the Plan.

These plans are accounted for under APB Opinion No. 25, under which no compensation cost has been recognized for nonqualified stock options. The compensation cost that was charged against net income for restricted stock awards was $6.8 million, $3.5 million and $1.9 million for three years ended December 31, 2000, 1999 and 1998, respectively.

Transactions for the three years ended December 31, 2000, are as follows:

	Options	Weighted Average Option Price
Outstanding at December 31, 1997	2,535,400	$16.41
Granted	607,000	29.22
Exercised	(457,700)	14.88
Cancelled	(33,400)	16.07
Outstanding at December 31, 1998	2,651,300	19.61
Granted	744,750	24.59
Converted	740,780	15.03
Exercised	(171,374)	14.03
Cancelled	(17,000)	28.45
Outstanding at December 31, 1999	3,948,456	19.90
Granted	1,235,000	20.97
Exercised	(603,073)	14.95
Cancelled	(117,500)	23.88
Outstanding at December 31, 2000	4,462,883	20.76
Exercisable at December 31, 2000	3,253,133	20.69

The following table summarizes information on stock options outstanding and exercisable at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share	Number Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share
$11.46-$16.60	1,177,127	$15.02	2.8	1,177,127	$15.02
$16.61-$24.60	2,718,756	$21.48	8.3	1,509,006	$21.90
$24.61-$29.22	567,000	$29.22	7.7	567,000	$29.22
$11.46-$29.22	4,462,883	$20.76	6.7	3,253,133	$20.69

At December 31, 1997, there were 11,200 SARs outstanding with an option price of $5.47. There were no SARs outstanding at December 31, 2000, 1999 or 1998.

Had compensation cost been determined consistent with the provisions of the SFAS No. 123 fair value method (See Note 2T), NiSource's net income and earnings per share would have been the pro forma amounts below:

Year Ended December 31 ($ in millions except per share data)	*2000*	*1999*	*1998*
Net Income			
As reported	**156.9**	160.4	193.9
Pro forma	**153.7**	158.8	192.8
Earnings per share			
Basic — as reported	**1.16**	1.29	1.60
— pro forma	**1.14**	1.27	1.60
Dilute — as reported	**1.15**	1.27	1.59
— pro forma	**1.13**	1.27	1.59
Weighted average fair value of options granted during the year	**4.61**	3.66	4.28

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.86% and with the following assumptions used for grants in 2000, 1999 and 1998:

	August 2000	*January 2000*	*August 1999*	*August 1998*
Expected Life	**5.8 yrs.**	**5.4 yrs.**	5.25 yrs.	5.4 yrs.
Interest Rate	**6.6%**	**6.6%**	5.87%	5.29%
Volatility	**26.16%**	**28.98%**	15.72%	13.09%

14. LONG-TERM DEBT

In November 2000, NiSource Inc., through its NiSource Finance Corp. subsidiary, issued $2.65 billion of private placement notes, providing a layer of permanent financing for the acquisition of Columbia. This issuance included $750.0 million of three-year notes bearing a 7.50% coupon and maturing on November 15, 2003; $750.0 million of five-year notes bearing a 7.625% coupon and maturing on November 15, 2005; and $1.0 billion of ten-year notes bearing a 7.875% coupon and maturing on November 15, 2010. Subsequently, an additional $150.0 million of five-year notes were issued, bearing a 7.625% coupon and maturing on November 15, 2005.

Also during November 2000, NiSource issued 55.5 million SAILS℠ as a portion of the consideration payable in the acquisition of Columbia (See Note 3). The SAILS℠ were issued as one unit consisting of two separate instruments: a debenture with a stated amount of $2.60 and a purchase contract requiring the holder to purchase for $2.60 cash, an amount of NiSource common shares based on a settlement rate that is indexed to the market price of NiSource common stock. The purchase contract settlement date will be the fourth anniversary of completion of merger date or earlier if there is a change in control of NiSource before that date. The purchase contracts may not be settled prior to the purchase contract settlement date. The debentures have been pledged to secure the holders' obligation to purchase common shares under the purchase contract.

Sinking fund requirements and maturities of long-term debt outstanding at December 31, 2000, for each of the four years subsequent to December 31, 2001, were as follows:

	(in millions)
2002	$ 400.7
2003	$ 901.7
2004	$ 226.5
2005	$1,297.7

Unamortized debt expense, premium and discount on long-term debt applicable to outstanding bonds are being amortized over the lives of such bonds. Reacquisition premiums have been deferred and are being amortized. These premiums are not earning a return during the recovery period.

The financial obligations of Capital Markets are subject to a Support Agreement between NiSource and Capital Markets, under which NiSource has committed to make payments of interest and principal on Capital Markets' obligations in the event of a failure to pay by Capital Markets. Restrictions in the Support Agreement prohibit recourse on the part of Capital Markets' creditors against the stock and assets of Northern Indiana that are owned by NiSource. Under the terms of the Support Agreement, in addition to the cash flow of cash dividends paid to NiSource by any of its consolidated subsidiaries, the assets of NiSource, other than the stock and assets of Northern Indiana, are available as recourse for the benefit of Capital Markets' creditors. The carrying value of the assets of NiSource, other than the assets of Northern Indiana, was $15.8 billion at December 31, 2000.

Columbia has entered into interest rate swap agreements to modify the interest characteristics of its outstanding long-term debt. At December 31, 2000, Columbia has outstanding four interest rate swap agreements effective through November 28, 2002, on $200 million notional amounts of its 6.61% Series B Debentures due November 28, 2002. In addition, Columbia has outstanding an interest rate swap agreement effective through November 28, 2005, on a $100 million notional amount of its 6.80% Series C Debentures due November 28, 2005. Under the terms of the agreements, Columbia pays interest based on a floating rate index and receives interest based on a fixed rate. The effect of these agreements is to modify the interest rate characterization of a portion of Columbia's long-term debt from fixed to variable. The effect of these interest rate swaps on interest expense in 2000 and 1999 was immaterial.

15. SHORT-TERM BORROWINGS

Acquisition Financing.
In November 2000, NiSource Inc., through its NiSource Finance Corp. subsidiary, entered into a new $6.0 billion 364-day acquisition facility with a syndicate of banks. The facility was put in place to finance the Company's $6.0 billion acquisition of the Columbia Energy Group, which was consummated on November 1, 2000. Borrowings under the facility have been guaranteed by NiSource, Inc. On November 1, 2000, the facility supported $4.1 billion of commercial paper issued by NiSource Finance Corp. to finance the Columbia acquisition. At December 31, 2000, the facility supported the remaining $1.1 billion of commercial paper originally issued in connection with the Columbia acquisition.

Subsequent to the November 1, 2000 Columbia acquisition, the Company reduced its acquisition related commercial paper borrowings through the issuance of $2.65 billion of private placement notes, completed in the fourth quarter of 2000.

On November 27, 2000, the Company issued 11.5 million new shares of NiSource, Inc. common stock at an offering price of $25.25 per share. The $280.9 million of net proceeds were used to reduce borrowings under the NiSource Finance Corp. acquisition credit facility.

Other Credit Facilities.
Columbia maintains two unsecured revolving credit facilities consisting of an $850.0 million 364-day revolving credit agreement that expires in October, 2001, and a $50.0 million Letter of Credit Facility that expires in October 2001. At December 31, 2000, the facility supported $521 million (net of a $3 million discount) of commercial paper borrowings that had a weighted average interest rate of 7.76%.

NiSource's financing subsidiary, NiSource Capital Markets, Inc., may borrow under a $200.0 million 364-day revolving credit facility that expires on July 5, 2001. At December 31, 2000, the facility supported $171.3 million of commercial paper borrowings that had a weighted average interest rate of 7.86%. NiSource Capital Markets, Inc. also maintains multiple uncommitted lines of credit totaling $203.0 million. At December 31, 2000, there were $188.0 million of borrowings outstanding under these uncommitted lines of credit with a weighted average interest rate of 7.96%.

Northern Indiana may borrow under a $200.0 million 364-day revolving credit facility that expires in September 2001. At December 31, 2000, the facility supported $196.2 million of commercial paper borrowings that had a weighted average interest rate of 7.03%. Northern Indiana also maintains multiple uncommitted lines of credit totaling $178.0 million. At December 31, 2000, there were $174.9 million of borrowings outstanding under these uncommitted lines of credit with a weighted average interest rate of 7.70%.

Bay State may borrow under two separate committed lines of credit totaling $115.0 million of which $55 million was outstanding at December 31, 2000, with a weighted average interest rate of 7.38%. At December 31, 2000, the committed lines supported $110.0 million of commercial paper borrowings that had a weighted average interest rate of 7.35%.

Permanent Credit Facility.
NiSource is in the process of arranging a new $2.5 billion revolving credit facility with a syndicate of banks for future working capital requirements. The new facility will refinance and consolidate essentially all of NiSources's existing short-term credit facilities (discussed above) into one credit facility at the holding company level, through its NiSource Finance Corp. subsidiary. NiSource expects to have this new facility in place early in 2001.

In September 1999, Capital Markets issued $160 million PURS in an underwritten public offering. The PURS were unsecured debentures of Capital Markets and ranked equally with all other unsecured and un-subordinated debt of Capital Markets. On September 28, 2000, all $160 million PURS were redeemed by NiSource at par.

As of December 31, 2000, NiSource had $165.5 million of letters of credit outstanding. At December 31, 1999, NiSource had no leters of credit outstanding.

Short-term borrowings were as follows:

At December 31	*2000*	*1999*
	($ in millions)	
Commercial paper weighted average interest rate of 7.44%	**2,078.8**	299.5
Notes payable weighted average interest rate of 7.78%	**417.9**	351.8
Total short-term borrowings	**2,496.7**	651.3

16. CORPORATE PREMIUM INCOME EQUITY SECURITIES AND COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF TRUST HOLDING SOLELY COMPANY DEBENTURES

In February 1999, NiSource completed an underwritten public offering of Corporate Premium Income Equity Securities (Corporate PIES). The net proceeds of approximately $334.7 million were primarily used to fund the cash portion of the consideration payable in the acquisition of Bay State, and to repay short-term indebtedness.

The Corporate PIES were offered as one unit comprised of two separable instruments. The first component consists of stock purchase contracts to purchase, four years from the date of issuance, common shares at a face value of $50. The second component consists of mandatorily redeemable preferred securities (Preferred Securities) which represent an undivided beneficial ownership interest in the assets of NIPSCO Capital Trust I (Capital Trust). The Preferred Securities have a stated liquidation amount of $50. The sole assets of Capital Trust are subordinated debentures (Debentures) of Capital Markets that earn interest at the same rates as the Preferred Securities to which they relate, and certain rights under related guarantees by Capital Markets. The Preferred Securities have been pledged to secure the holders' obligation to purchase common shares under the stock purchase contracts.

The distributions paid on Preferred Securities are presented under the caption "Minority Interests" in NiSource's Consolidated Statements of Income. The amounts outstanding are presented under the caption "Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely company debentures" in NiSource's Consolidated Balance Sheet. At December 31, 2000, there were 6.9 million 5.9% Preferred Securities outstanding with Capital Trust assets of $345 million.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and cash equivalents.
The carrying amount approximates fair value due to the short maturity of those instruments.

Investments.
Where feasible, the fair value of investments is estimated based on market prices for those or similar investments.

Long-term debt/Preferred Stock and Preferred Securities.
The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

The carrying values and estimated fair values of financial instruments were as follows:

At December 31,	**Carrying Amount 2000**	**Estimated Fair Value 2000**	Carrying Amount 1999	Estimated Fair Value 1999
		($ in millions)		
Long-term Investments	**$ 57.4**	**$ 56.5**	$ 48.7	$ 49.0
Long-term debt (including current portion)	**5,867.5**	**5,291.7**	1,949.3	1,808.8
Preferred stock (including current portion)	**132.7**	**107.1**	139.6	119.7
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures	**$ 345.0**	**$ 372.6**	$ 345.0	$ 248.8

A portion of the long-term debt relates to utility operations. The Utilities are subject to regulation and gains or losses may be included in rates over a prescribed amortization period, if in fact settled at amounts approximating those above.

In October 1999, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade accounts receivable to Columbia Accounts Receivable Corporation (CARC), a wholly-owned subsidiary of Columbia. At the same time, CARC entered into an agreement with a third party, Canadian Imperial Band of Commerce (CIBC), to sell a percentage ownership interest in a defined pool of accounts receivable (Sales Program). Under this Sales Program, CARC can transfer an undivided interest in a designated pool of its accounts receivable on an ongoing basis up to a maximum of $125 million until April 30, 2001, at which time the maximum decreases to $100 million. The amount available at any measurement date varies based upon the level of eligible receivables. Under this agreement, approximately $108 million of receivables were sold as of December 31, 2000.

Under a separate agreement, in conjunction with the Sales Program, Columbia of Ohio acts as agent for CIBC, the ultimate purchaser of the receivables, by performing record keeping and cash collection functions for the accounts receivable sold by CARC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

Northern Indiana may sell up to $100 million of certain of its accounts receivable to Citibank under a sales agreement, without recourse, which expires May 2003. Northern Indiana has sold $100 million under this agreement.

Under a separate agreement, in conjunction with the sales agreement, Northern Indiana acts as agent for Citibank, by performing record keeping and cash collection functions for the accounts receivable sold to Citibank. Northern Indiana receives a fee, which provides adequate compensation, for such services.

18. OTHER COMMITMENTS AND CONTINGENCIES

A. Capital Expenditures.
NiSource expects that approximately $650.0 million will be expended for construction purposes during 2001. Substantial commitments have been made in connection with this construction program.

B. Service Agreements.
Northern Indiana has entered into a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and Mitsubishi Heavy Industries America, Inc., under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at Bailly Generating Station. Services under this contract commenced on June 15, 1992, with annual charges approximating $20 million. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminates the agreement prior to the end of the twenty-year contract period.

C. Assets Under Lien.
Substantially all of Columbia Transmission's properties have been pledged to Columbia as security for debt owed by Columbia Transmission to Columbia. The first mortgage bonds of Northern Indiana constitute a first mortgage lien on certain utility property and franchises.

D. Guarantees and Indemnities.
Primary Energy, Inc. (Primary) arranges energy-related projects for large energy-intensive customers and provides expertise in managing the engineering, construction, operation and maintenance of such projects. Through its subsidiaries, Primary has entered into agreements with several of NiSource's largest industrial customers to service a portion of their energy needs. Primary has entered into certain operating lease commitments to lease these energy-related projects. NiSource, principally through Capital Markets, guarantees certain of Primary's obligations under each lease, which are included in the amount disclosed in the Operating Leases in Note 18G.

In connection with the purchase of National Propane Partners, L.P. (National Propane) interests, Columbia has provided an indemnity to reimburse the former Managing General Partner for income taxes that would be due if certain actions by Columbia result in the recognition of certain types of income or gain by the former Managing General Partner.

E. Other Legal Proceedings.
In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position or results of operations.

F. Environmental Matters:
General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

Gas Distribution. Several Gas Distribution subsidiaries are a "potentially responsible party" (PRP) at waste disposal sites under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) (commonly known as Superfund) and similar state laws, including at former manufactured gas plant (MGP) sites which it, or its corporate predecessors, own or owned or operated. Gas Distribution subsidiaries may be required to share in the cost of clean-up of such sites. In addition, some Gas Distribution subsidiaries have corrective action liability under the RCRA for closure and clean-up costs associated with underground storage tanks.

Gas Distribution is party to or otherwise involved in clean-up of three waste disposal sites under Superfund or similar state laws. For some such sites, the potential liability is de minimis and, for others, the final costs of clean-up have not yet been determined. As site investigations and clean-ups proceed, waste disposal site liability is reviewed periodically and adjusted as additional information becomes available.

A program has been instituted to identify and investigate former MGP sites where Gas Distribution subsidiaries or predecessors thereof are the current or former owner. The investigation has identified 85 such sites. Initial investigation has been conducted at 39 sites. Investigation activities have been completed at 26 sites and remedial measures have been selected or implemented at 26 sites. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5).

NiSource intends to continue to evaluate its facilities and properties with respect to environmental laws and regulations and take any required corrective action. To the extent site investigations have been conducted, remediation plans developed and the responsibility for remediation established, the appropriate estimated liabilities have been recorded. A regulatory asset has been recorded to the extent environmental expenditures are expected to be recovered through rates.

As of December 31, 2000, a reserve of approximately $24 million has been recorded to cover probable environmental response actions. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, years of ownership or operation, the number of other PRPs and their financial viability and the extent of environmental response actions required. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any environmental response actions required, after consideration of insurance coverage, contributions from other PRPs and rate recovery, will not have a material effect on its financial position or results of operations.

Mercury Program. Until the 1960s, gas regulators containing small quantities of mercury were installed in homes on some natural gas systems. The purpose of these regulators was to reduce the pressure of the natural gas flowing from the service line for use inside of the home.

In 2000, several non-NiSource gas distribution companies were involved in highly publicized testing and clean-up programs resulting from mercury spills associated with the removal of gas regulators containing mercury. A number of the NiSource gas distribution subsidiaries are known to have utilized gas regulators that contained small quantities of mercury. All NiSource subsidiaries have implemented a program for reviewing their procedures for managing gas regulators containing mercury. While this program is currently underway, it has not identified any significant problems associated with past or current use or removal of mercury regulators. Information generated to date shows that a number of NiSource gas distribution subsidiaries have a small number or no mercury containing gas regulators in service. Other NiSource gas distribution subsidiaries, which still utilize gas regulators containing mercury, have programs in place to ensure the proper management of gas regulators containing mercury, including ensuring that any accidental mercury spills associated with maintenance or removal of these regulators are detected and properly cleaned up.

NiSource subsidiaries have received and responded to inquiries about the current and historical use of gas regulators containing mercury from regulatory agencies in Kentucky and Pennsylvania. In addition, on December 7, 2000, the EPA Region V sent letters to all NiSource subsidiaries in Indiana and Ohio asking each of them to "review its records and address any concerns or issues associated with mercury regulators, manometers, or any other mercury-containing measuring devices." We believe that the program described in the preceding paragraph will be sufficient to satisfy the EPA's request. We currently believe that any liability associated with the current or historical use of gas regulators containing mercury will not have a material effect on its financial position or results of operations.

Electric Operations. The Clean Air Act Amendments of 1990 (CAAA) impose limits to control acid rain on the emission of sulfur dioxide and nitrogen oxides (NOx) which became fully effective in 2000. All of Northern Indiana's facilities are in compliance with the sulfur dioxide and NOx limits.

The CAAA also contain other provisions that could lead to limitations on emissions of hazardous air pollutants and other air pollutants (including NOx as discussed below), which may require significant capital expenditures for control of these emissions. Until specific rules have been issued that affect Northern Indiana's facilities, what these requirements will be or the costs of complying with these requirements cannot be predicted.

During 1998, the EPA issued a final rule, the NOx State Implementation Plan (SIP) call, requiring certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers. The EPA stated that the intent of the rule is to lower regional transport of ozone impacting other states' ability to attain the federal ozone standard. According to the rule, the State of Indiana must issue regulations implementing the control program. The State of Indiana, as well as some other states, filed a legal challenge in December 1998 to the EPA NOx SIP call rule. Lawsuits have also been filed against the rule by various groups, including utilities. In a March 3, 2000, decision, the United States Court of Appeals for the D.C. Circuit ruled largely in favor of the EPA's regional NOx plan and on June 22, 2000, the court extended to October 30, 2000, the deadline for the state plan submittals implementing the EPA NOx SIP Call. A petition for a hearing before the United States Supreme Court has been filed. The State of Indiana superceded its February 2000, proposed NOx control plan designed to address Indiana's ozone nonattainment areas and regional ozone transport, by initiating rulemaking on a more stringent rule compliant with the EPA's NOx SIP call rule. That rulemaking is expected to be finalized by mid-summer 2001. NiSource is actively involved in the review and comment of the proposed Indiana rules.

In spite of the state's efforts, on December 18, 2000, the EPA sent Indiana and 10 other SIP call states and the District of Columbia deficiency notices for their failure to submit final rules by the October 30, 2000 deadline. Because Indiana has been working with the EPA and is expected to finalize its rule by mid-summer 2001, no additional adverse requirements are expected. Any NOx emission limitations resulting from the Indiana rules are expected to be more restrictive than those imposed on electric utilities under the CAAA's acid rain NOx reduction program described above. NiSource is following the litigation and evaluating the court decision and any potential requirements that could result from the rules as implemented by the State of Indiana. NiSource believes that the costs relating to compliance with the new standards may be substantial, but such costs are dependent upon the outcome of the current litigation and the ultimate control program agreed to by the targeted states and the EPA. NiSource is continuing its programs to reduce NOx emissions at Northern Indiana's electric facilities and will continue to closely monitor developments in this area.

In a related matter to the NOx SIP call, several Northeastern states have filed petitions with the EPA under Section 126 of the Clean Air Act. The petitions allege harm and request relief from sources of emissions in the Midwest that allegedly cause or contribute to ozone nonattainment in their states. NiSource is monitoring the EPA's decisions on these petitions and existing litigation to determine the impact of these developments on programs to reduce NOx emissions at Northern Indiana's electric facilities.

The EPA issued final rules revising the National Ambient Air Quality Standards for ozone and particulate matter in July 1997. On May 14, 1999, the United States Court of Appeals for the D.C. Circuit remanded the new rules for both ozone and particulate matters to the EPA. The Court of Appeals Decision was appealed to the Supreme Court which heard oral arguments on November 7, 2000, and is expected to make a decision in spring 2001. If upheld by the court, the revised standards could require additional reductions in sulfur dioxide, particulate matter and NOx emissions from coal-fired boilers (including Northern Indiana's electric generating stations) beyond measures discussed above. Final implementation methods will be set by the EPA as well as state regulatory authorities. NiSource believes that the costs relating to compliance with any new limits may be substantial but are dependent upon the ultimate control program agreed to by the targeted states and the EPA. NiSource will continue to closely monitor developments in this area however the exact nature of the impact of the new standards on its operations will not be known for some time.

In a letter dated September 15, 1999, the Attorney General of the State of New York alleged that Northern Indiana violated the Clean Air Act by constructing a major modification of one of its electric generating stations without obtaining preconstruction permits required by the Prevention of Significant Deterioration (PSD) program. The major modification allegedly took place at the R. M. Schahfer Station when, "in approximately 1995–1997, Northern Indiana's upgraded the coal handling system at Unit 14 at the plant." While Northern Indiana is investigating these allegations, the company does not believe that the modifications required pre-construction review under the PSD program and believes that all appropriate permits were acquired.

Initiatives are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels. Reduction of such emissions could result in significant capital outlays or operating expenses for Northern Indiana.

On December 20, 2000, notice in the Federal Register, the EPA issued a finding that the regulation of emissions of mercury and other air toxics from coal and oil-fired electric steam generating units is necessary and appropriate. The EPA expects to issue proposed regulations by December 15, 2003, and finalized by December 15, 2004. The potential impact, if any, to NiSource's consolidated results that may occur because of any potential new regulations concerning emissions of mercury and other air toxics is unknown at this time.

Remediation. Northern Indiana is a PRP at four waste disposal sites under CERCLA and similar state laws, and may be required to share in the cost of clean-up of such sites. In addition, Northern Indiana has corrective action liability under the RCRA for closure and clean-up costs associated with treatment, storage, and disposal units. As of December 31, 2000, a reserve of approximately $2.0 million has been recorded to cover probable environmental response actions at these sites. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of other PRPs and their financial viability and the extent of corrective actions required. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on the its financial position or results of operations.

Gas Transmission. Columbia Transmission continues to conduct assessment, characterization and remediation activities at specific sites under a 1995 the EPA Administrative Order by Consent (AOC). The program pursuant to the AOC covers approximately 240 facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. As of December 31, 2000, field characterization has been performed at almost all of these sites, with the exception of the storage well locations. Site characterization reports and remediation plans which must be submitted to the EPA for approval, are in various stages of development and completion. Characterization of the storage well locations were initiated in the fall of 2000 and are yet to be completed. Significant remediation has taken place at mercury measurement stations, liquid removal point sites, and at a limited number of the 240 facilities. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5).

As costs become probable and reasonably estimable, the associated reserves will be adjusted as appropriate. Columbia Transmission is unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that as characterization is completed and approved by the EPA, additional remediation work is performed and more facts become available, Columbia Transmission will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with U.S. Securities and Exchange Commission's Staff Accounting Bulletin No. 92, SFAS No. 5, and American Institute of Certified Public Accountants Statement of Position 96-1.

At the end of 2000, the remaining liability recorded on the balance sheet for the transmission and storage operations was $104.5 million. Columbia Transmission's environmental cash expenditures are expected to be approximately $16 million in 2001 and to remain at this level in the foreseeable future. These expenditures will be charged against the previously recorded liability. A regulatory asset has been recorded to the extent environmental expenditures are expected to be recovered through rates. Management does not believe that Columbia Transmission's environmental expenditures will have a material adverse effect on its operations, liquidity or financial position, based on known facts, existing laws, regulations, its cost recovery settlement with customers and the long time period over which expenditures will be made.

In addition, predecessor companies of Columbia Transmission may have been involved in the operation of manufactured gas plants. When such plants were abandoned, material used and created in the process was sometimes buried at the site. As of the date of this report, Columbia Transmission is unable to determine if it will become liable for any characterization or remediation costs at such sites.

Telecommunications Networks. In spring 2000, Columbia Transmission Communications Corporation (Transcom) received directives from the Philadelphia District of the U.S. Army Corps of Engineers (Philadelphia District) and an administrative order from the Pennsylvania Department of Environmental Protection (PA DEP) addressing alleged violations of federal and state laws resulting from construction activities associated with Transcom's laying of fiber optic cable along portions of a route between Washington, D.C., and New York City. The order and directives required Transcom to largely cease construction activities. In September 2000, Transcom entered into a voluntary settlement agreement with the Philadelphia District and contributed $1.2 million to the Pennsylvania chapter of the Nature Conservancy and the Philadelphia District lifted its directives halting work. Transcom has also had discussions with the Maryland Department of Environment and the Baltimore District of the U.S. Army Corps of Engineers regarding its construction activities in the state of Maryland. Construction is ongoing in Pennsylvania and Maryland. Transcom cannot predict the nature or amount of total remedies that may be sought in connection with the foregoing construction activities.

Discontinued Operations. Columbia Propane's primary environmental issues relate to former manufactured gas plant sites acquired in the acquisition of National Propane for which accruals have been made. Investigations are currently underway at one site. One other known former manufactured gas plant site is inactive. It is possible that former manufactured gas plant sites exist at two other National Propane properties. Management does not believe that Columbia Propane's environmental expenditures will have a material adverse effect on NiSource's consolidated financial results.

NiSource's discontinued wastewater and water operations are subject to pollution control and water quality control regulations. Under the Federal Clean Water Act and state regulations, National Pollutant Discharge Elimination System permits must be obtained for water discharges and water treatment stations. These facilities either have permits for their water discharge or they have applied for a permit renewal of any expiring permits. These permits continue in effect pending review of the current applications.

Under the Federal Safe Drinking Water Act (SDWA), the Water Utilities are subject to regulation by the EPA for the quality of water sold and treatment techniques used to make the water potable. The EPA promulgates nationally-applicable maximum contaminant levels (MCLs) for contaminants found in drinking water. Management believes the Water Utilities are currently in compliance with all MCLs promulgated to date. The EPA has continuing authority, however, to issue additional regulations under the SDWA. In August 1996, Congress amended the SDWA to allow the EPA more authority to weigh the costs and benefits of regulations being considered in some, but not all, cases. In December 1998, the EPA promulgated two National Primary Drinking Water rules, the Interim Enhanced Surface Water Treatment Rule and the Disinfectants and Disinfection Byproducts Rule. The Water Utilities must comply with these rules by December 2001. Management does not believe that significant changes will be required to the Water Utilities' operations to comply with these rules; however, some cost expenditures for equipment modifications or enhancements may be necessary to comply with the Interim Enhanced Surface Water Treatment Rule. Additional rules are anticipated to be promulgated under the 1996 amendments. Compliance with such standards could be costly and require substantial changes in the Water Utilities' operations.

Under a 1991 law enacted by the Indiana legislature, a water utility may petition the IURC for prior approval of its plans and estimated expenditures required to comply with the provisions of, and regulations under, the Federal Clean Water Act and SDWA. Upon obtaining such approval, a water utility may include such costs in its rate base for rate-making purposes, to the extent its estimated costs are approved by the IURC, and recover its costs of developing and implementing the approved plans if statutory standards are met. The capital costs for such new systems, equipment or facilities or modifications of existing facilities may be included in a water utility's rate base upon completion of construction of the project or any part thereof. Such an addition to rate base, however, would effect a change in water rates. NiSource's principal water utility, Indianapolis Water Company (IWC), has agreed to a moratorium on water rate increases until 2002. Therefore, recovery of any increased costs discussed above may not be timely.

Environmental Reserves. It is management's continued intent to address environmental issues in cooperation with regulatory authorities in such a manner as to achieve mutually acceptable compliance plans. However, there can be no assurance that fines and penalties will not be incurred. Management expects most environmental assessment and remediation costs to be recoverable through rates for certain of NiSource companies.

As of December 31, 2000, a reserve of approximately $130.5 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other PRPs and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required, after consideration of insurance coverages, contributions from other PRPs and rate recovery, will not have a material effect on its financial position or results of operations.

G. Operating Leases.
Payments made in connection with operating leases are primarily charged to operation and maintenance expense as incurred. Such amounts were $57.4 million in 2000, $48.5 million in 1999 and $22.1 million in 1998.

Future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year are:

	($ in millions)
2001	$ 81.3
2002	125.6
2003	140.3
2004	82.3
2005	80.2
After	721.4

H. Purchase Commitments.
NiSource has service agreements that provide for pipeline capacity, transportation and storage services. These agreements which have expiration dates ranging from 2001 to 2014, provide for NiSource to pay fixed monthly charges. The estimated aggregate amounts of such payments at December 31, 2000, were:

	($ in millions)
2001	$ 97.2
2002	75.5
2003	54.0
2004	45.3
2005	35.4
After	152.4

19. OTHER, NET

Year Ended December 31,	*2000*	*1999*	*1998*
		($ in millions)	
Interest income	**$ 18.7**	$ 6.5	$7.4
Gain on sale of assets	**55.4**	7.5	1.5
Miscellaneous	**(32.0)**	(34.6)	0.6
Total Other, Net	**$ 42.1**	$(20.6)	$9.5

20. INTEREST EXPENSE, NET

Year Ended December 31,	*2000*	*1999*	*1998*
		($ in millions)	
Interest on long-term debt	**$136.6**	$119.5	$106.6
Interest on short-term debt	**166.6**	31.5	12.2
Discount on prepayment transactions	**7.9**	4.7	4.3
Other	**(2.7)**	0.4	(2.3)
Allowance for borrowed funds used and interest during construction	**(3.9)**	(0.7)	(0.6)
Total Interest Expense, Net	**$304.5**	$155.4	$120.2

21. SEGMENTS OF BUSINESS

Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into six primary business segments. The gas distribution segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Northern Indiana and certain areas of Massachusetts, Maine and New Hampshire. The electric operations segment provides electric service in 21 counties in the northern part of Indiana. Although the electric segment has a diversified base of residential and commercial customers, substantial portions of their industrial deliveries are dependent on the basic steel industry. The gas transmission and storage segment offers transportation and storage services for local distribution companies, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The exploration and production segment explores for, develops, produces and markets gas and oil in the United States and in Canada. The energy marketing segment provides energy-related services including gas marketing and asset management services to LDCs, wholesale, commercial and industrial customers. The other products and services segment participates in the development of non-rate regulated power projects, real estate, telecommunications and other businesses.

The current segment structure is not significantly different than segments reported prior to the merger. Previous periods did not include a transmission and storage or an exploration and production segment but did include a water utilities segment. As discussed in Note 5, the water utilities business is being reported as discontinued operations. With the adoption of the new segment alignment an additional change has been to focus on operating income as the primary financial measure for segments as opposed to a form of EBIT used in prior periods.

The following tables provide information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Revenues include intersegment sales to affiliated subsidiaries, which are eliminated when consolidated. Affiliated sales are recognized on the basis of prevailing market or regulated prices. Operating income is derived from revenues and expenses directly associated with each segment.

($ in millions)	2000	1999	1998
Revenues			
Gas Distribution			
Unaffiliated	**2,083.8**	976.1	630.9
Intersegment	**137.9**	113.6	20.4
Total	**2,221.7**	1,089.7	651.3
Electric			
Unaffiliated	**1,557.4**	1,346.3	1,426.6
Intersegment	**2.5**	2.6	3.4
Total	**1,559.9**	1,348.9	1,430.0
Gas Transmission and Storage			
Unaffiliated	**109.7**	—	—
Intersegment	**52.0**	—	—
Total	**161.7**	—	—
Exploration and Production			
Unaffiliated	**41.1**	—	—
Intersegment	—	—	—
Total	**41.1**	—	—
Energy Marketing			
Unaffiliated	**1,963.8**	715.6	582.8
Intersegment	**139.5**	59.1	61.5
Total	**2,103.3**	774.7	644.3
Other Products and Services			
Unaffiliated	**181.9**	191.3	165.8
Intersegment	**77.4**	51.6	45.2
Total	**259.3**	242.9	211.0
Adjustments and eliminations			
Intersegment	**(316.3)**	(182.7)	(92.7)
Consolidated	**6,030.7**	3,273.5	2,843.9

	2000	1999	1998
		($ in millions)	
Operating Income (Loss)			
Gas Distribution	**225.4**	115.4	65.1
Electric	**364.0**	363.4	348.6
Gas Transmission and Storage	**61.5**	—	—
Exploration and Production	**15.6**	—	—
Energy Marketing	**(2.0)**	(15.5)	(2.1)
Other Products and Services	**6.6**	19.1	4.1
Corporate	**(115.3)**	(44.9)	(13.1)
Adjustments and eliminations	**12.0**	0.4	0.1
Consolidated	**567.8**	437.9	402.7
Depreciation, Amortization and Depletion			
Gas Distribution	**147.3**	115.4	74.7
Electric	**162.7**	158.5	156.8
Gas Transmission and Storage	**26.1**	—	—
Exploration and Production	**9.1**	—	—
Energy Marketing	**11.8**	5.0	0.6
Other Products and Services	**12.6**	11.5	8.7
Corporate	**4.5**	4.6	0.9
Adjustments and eliminations	—	—	0.1
Consolidated	**374.1**	295.0	241.8
Assets			
Gas Distribution	**6,135.8**	2,559.4	1,192.2
Electric	**2,722.0**	2,595.4	2,592.8
Gas Transmission and Storage	**2,934.4**	—	—
Exploration and Production	**960.6**	—	—
Energy Marketing	**2,222.7**	641.0	177.9
Other Products and Services	**744.7**	382.5	348.2
Corporate	**10,174.1**	1,615.6	672.3
Adjustments and eliminations	**(6,197.5)**	(1,365.3)	(388.0)
Consolidated	**19,696.8**	6,428.6	4,595.4
Capital Expenditures			
Gas Distribution	**138.3**	145.2	63.0
Electric	**132.2**	134.0	124.0
Gas Transmission and Storage	**50.3**	—	—
Exploration and Production	**22.7**	—	—
Energy Marketing	**1.2**	0.7	—
Other Products and Services	**21.1**	14.0	11.3
Corporate	—	—	—
Consolidated	**365.8**	293.9	198.3

22. QUARTERLY FINANCIAL DATA

Quarterly financial data does not always reveal the trend of NiSource's business operations due to nonrecurring items and seasonal weather patterns which affect earnings and related components of net revenues and operating income.

($ in millions, except per share data)	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
2000				
Gross Revenues	**1,106.4**	**1,003.1**	**1,179.4**	**2,741.8**
Operating Income	**174.7**	**83.2**	**95.8**	**214.1**
Income (Loss) from Continuing Operations	**79.1**	**21.4**	**46.8**	**(0.2)**
Income from Discontinued Operations — net of taxes	**0.5**	**2.0**	**5.2**	**2.1**
Net Income	**79.6**	**23.4**	**52.0**	**1.9**
Basic Earnings Per Share of Common Stock				
Continuing Operations	**0.64**	**0.18**	**0.39**	—
Discontinued Operations	—	**0.01**	**0.04**	**0.01**
Basic Earnings per Share	**0.64**	**0.19**	**0.43**	**0.01**
Diluted Earnings Per Share of Common Stock				
Continuing Operations	**0.62**	**0.17**	**0.38**	—
Discontinued Operations	—	**0.01**	**0.04**	**0.01**
Diluted Earnings Per Share	**0.62**	**0.18**	**0.42**	**0.01**
1999				
Gross Revenues	870.8	707.3	777.7	917.7
Operating Income	154.3	79.0	95.3	109.3
Income from Continuing Operations	77.9	21.2	23.4	31.4
Income (Loss) from Discontinued Operations — net of taxes	(1.3)	1.7	4.6	1.5
Net Income	76.6	22.9	28.0	32.9
Basic Earnings (Loss) Per Share of Common Stock				
Continuing Operations	0.63	0.17	0.19	0.25
Discontinued Operations	(0.01)	0.01	0.03	0.01
Basic Earnings Per Share	0.62	0.18	0.22	0.26
Diluted Earnings (Loss) Per Share of Common Stock				
Continuing Operations	0.63	0.17	0.19	0.24
Discontinued Operations	(0.01)	0.01	0.03	0.01
Diluted Earnings Per Share	0.62	0.18	0.22	0.25

Selected Supplemental Information

Year Ended December 31, ($ in millions)	*2000*	*1999*	*1998*	*1997*	*1996*
Gross Revenues					
Gas Distribution	**1,806.8**	831.6	609.6	800.8	799.4
Electric	**1,557.4**	1,346.3	1,426.6	1,015.4	1,022.2
Gas Transmission and Storage	**363.7**	120.0	—	—	—
Energy Marketing	**1,942.8**	697.1	594.9	383.8	116.4
Other Products and Services	**360.0**	278.5	212.8	322.3	49.9
Total Gross Revenues	**6,030.7**	3,273.5	2,843.9	2,522.3	1,987.9
Net Revenues	**1,948.0**	1,392.7	1,152.6	1,146.8	1,115.9
Operating Income	**567.8**	437.9	402.7	390.0	386.3
Net Income	**156.9**	160.4	193.9	190.8	176.7
Shares outstanding at the end of the year	**205,553**	124,139	117,531	124,312	119,611
Number of common shareholders	**52,085**	40,741	36,277	37,373	35,339
Basic Earnings Per Share ($)					
Continuing operations	**1.09**	1.24	1.56	1.48	1.44
Income from discontinued operations	**0.07**	0.05	0.04	0.06	—
Basic Earnings Per Share	**1.16**	1.29	1.60	1.54	1.44
Diluted Earnings Per Share ($)					
Continuing operations	**1.08**	1.22	1.55	1.47	1.43
Income from discontinued operations	**0.07**	0.05	0.04	0.06	—
Diluted Earnings Per Share	**1.15**	1.27	1.59	1.53	1.43
Return on average common equity	**6.6%**	12.8%	16.1%	16.1%	15.9%
Times interest earned (pre-tax)	**1.77**	2.20	3.26	3.48	3.62
Dividends paid per share	**1.08**	1.02	0.96	0.90	0.84
Dividend payout ratio	**93.1%**	79.1%	60.0%	58.4%	58.3%
Market values during the year:					
High	**31.500**	30.500	33.625	24.938	20.125
Low	**12.813**	16.563	24.750	19.000	17.625
Close	**30.750**	17.875	30.437	24.719	19.813
Book value of common shares	**16.61**	10.90	9.78	10.17	9.20
Market-to-book ratio at year end	**185.1%**	163.9%	311.2%	243.1%	215.4%
Total Assets	**19,696.8**	6,428.6	4,595.4	4,618.2	4,288.9
Capital expenditures	**365.8**	293.9	198.3	179.0	207.9
Capitalization					
Common shareholders' equity	**3,415.2**	1,353.5	1,149.7	1,264.8	1,100.5
Preferred and preference stock	**132.7**	139.6	142.0	144.5	142.4
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures	**345.0**	345.0	—	—	—
Long-Term debt	**5,802.7**	1,775.8	1,555.8	1,555.7	1,127.1
Total Capitalization	**9,695.6**	3,613.9	2,847.5	2,965.0	2,370.0
Number of employees	**14,674**	7,399	6,035	5,984	4,168

Shareholder Information and Services

NiSource Inc. common shares are listed and traded on the New York, Pacific and Chicago stock exchanges under the symbol NI. The shares are listed in financial stock quotations as NISOURCE. As of December 31, 2000, NiSource Inc. had 52,085 common shareholders.

Common Dividend Increased
At its meeting on January 3, 2001, the Board of Directors increased the dividend on common shares. The quarterly dividend was increased to 29 cents per share, or $1.16 on an annual basis. The common dividend was 27 cents per share for the previous four quarters, or $1.08 on an annual basis.

Anticipated Dividend Record and Payment Dates

Common

Record Date	*Payment Date*
April 30, 2001	May 18, 2001
July 31, 2001	August 20, 2001
October 31, 2001	November 20, 2001
January 31, 2002	February 20, 2002

Preferred

Record Date	*Payment Date*
March 16, 2001	April 12, 2001
June 15, 2001	July 13, 2001
September 14, 2001	October 12, 2001
December 14, 2001	January 14, 2002

Investor and Financial Information
Financial analysts and investment professionals should direct written inquiries to Dennis E. Senchak, Vice President, Investor Relations. Telephone inquiries to Investor Relations Department: (219) 647-6085 or (219) 647-6083.

Free copies of NiSource's financial reports are available by writing or calling the Investor Relations Department. The material also is available at www.nisource.com.

How to Contact the Company
NiSource Inc.
801 E. 86th Avenue
Merrillville, IN 46410

Phone Contact (877) 647-5990

Web site www.nisource.com

Shareholders Services
General questions about stockholder accounts, stock certificates, transfer of shares, dividend payments, or the Automatic Dividend Reinvestment and Share Purchase Plan and Electronic Deposit may be directed to Mellon Investor Services at the following addresses:

Account Maintenance
Mellon Investor Services
PO Box 3316
South Hackensack, NJ 07606-1916

Written Correspondence
Mellon Investor Services
PO Box 3315
South Hackensack, NJ 07606-1915

Dividend Reinvestment
Mellon Investor Services
PO Box 3338
South Hackensack, NJ 07606-1938

Stock Transfer
Mellon Investor Services
PO Box 3312
South Hackensack, NJ 07606-1912

Registered/Overnight Delivery
Mellon Investor Services
Stock Transfer Department
85 Challenger Road
Overpeck Centre
Ridgefield Park, NJ 07660

Phone Contact (888) 884-7790

Web site www.mellon-investor.com

Glossary of Selected Energy Terms

Billion Cubic Feet (Bcf): A common unit of measurement of natural gas.

British Thermal Unit (Btu): The standard unit for measuring quantity of heat energy. One Btu is the amount of heat energy required to raise the temperature of one pound of water 1 degree Fahrenheit at a specified temperature.

Cogeneration: The sequential production of thermal and electric energy from the same fuel source.

Construction Work in Progress (CWIP): A sub-account in the utility plant section of the balance sheet representing the sum of the balances of work orders for utility plant in process of construction, but not yet placed in service.

Deferred Taxes: Income taxes resulting from the use of income tax law provisions which allow recognition of certain items of revenue and expense in the tax return prior to their being recorded on the books of the company. Deferred taxes do not constitute earnings available to pay dividends to investors.

Dekatherm (dth): A unit of heating value equivalent to 10 therms or 1,000,000 Btus; equal to 1,000 cubic feet (1 mcf) at 1,000 Btus per cubic foot.

Distributed Generation: A system of energy production that is located at the point of use. It typically involves less than 500 kilowatts of capacity and often includes provision for thermal energy recovery and electric production.

Federal Energy Regulatory Commission (FERC): An independent five-member commission within the Department of Energy responsible for setting rates and charges for the wholesale transportation and sale of natural gas and electricity; the licensing of hydroelectric power projects; and for establishing rates or charges for the transportation of oil by pipeline, as well as the valuation of such pipelines.

Firm Power, Electric: Power or power-producing capacity intended to be available at all times during the period covered by a commitment, even under adverse conditions.

Gross Acres/Wells: Total acreage or the total number of wells in which a company holds participating interests.

Kilowatt (kw): 1,000 watts. A watt is a measure of the rate at which electricity is generated or consumed.

Market Center or Market Hub: An interchange where a shipper can gain access to multiple transportation paths, flexible supply/delivery points and, as a general rule, other services such as imbalance protection, short-term storage ("parking service") and gas lending or borrowing services.

Megawatt (mw): The generating capacity of utility plants is expressed in megawatts; a megawatt is 1,000 kilowatts or 1 million watts.

Operating Margin: The difference between operating revenues and the cost of sales. It is the contribution made to cover all other operating costs, fixed costs and profit margin.

Peak Load, Demand: Electricity or gas supplied during a period of the greatest demand.

Rate Base: The amount invested on which a regulatory agency allows utilities to earn a return.

Spot Market Gas: Natural gas purchased under short-term agreement by a gas utility or end user from sources other than pipeline companies.

Therm: A quantity of heat equivalent to 100,000 British thermal units (Btus).

Throughput: Total volumes of gas delivered.

Transportation Rates: Rates charged by a gas utility when it simply moves gas owned by a third party through its system.

Underground Storage: The injection of natural gas into underground rock formations during periods of low market demand and withdrawal during periods of high demand.

Utility Plant: All property and equipment used for the generation, transmission, and distribution of electricity and storage, transmission and distribution of gas.

Wheeling: Electric utility operation wherein transmission facilities of one system are used to transmit power produced by another system.

NiSource Public Officers

GARY L. NEALE
Chairman, President and
Chief Executive Officer

STEPHEN P. ADIK
Vice Chairman

CATHERINE G. ABBOTT
Group President, Pipeline Operations

PATRICK J. MULCHAY
Group President, Merchant Energy

JEFFREY W. YUNDT
Group President, Energy Distribution

STEPHEN P. SMITH
President, Business Services

MARK D. WYCKOFF
President, Energy Technologies

MICHAEL W. O'DONNELL
Executive Vice President and
Chief Financial Officer

PETER V. FAZIO, JR.
Executive Vice President
and General Counsel

S. LANETTE ZIMMERMAN
Executive Vice President and
Chief Human Resources Officer

JAMES M. CLARKE
Senior Vice President,
Risk Management and
Capital Allocation

ARTHUR E. SMITH, JR.
Senior Vice President and
Environmental Counsel

JOSEPH L. TURNER
Senior Vice President

FRANCIS P. GIROT, JR.
Vice President and Treasurer

JEFFREY W. GROSSMAN
Vice President and Controller

MARIA P. HIBBS
Vice President,
Corporate Communications

DAVID A. KELLY
Vice President, Tax

DENNIS W. MCFARLAND
Vice President, Finance and Planning

ARTHUR A. PAQUIN
Vice President, Audit

DENNIS E. SENCHAK
Vice President, Investor Relations,
Assistant Treasurer and Assistant Secretary

GARY W. POTTORFF
Secretary

Business Unit Officers

JAMES K. ABCOUWER
President and Chief Executive Officer,
Columbia Natural Resources

GLEN L. KETTERING
President, Columbia Gas
Transmission Corporation

TERRANCE L. MCGILL
President, Columbia Gulf
Transmission Company

ROBERT H. SKAGGS
President and Chief Executive Officer,
Columbia Gas of Ohio, Columbia Gas
of Kentucky, Bay State Gas and
Northern Utilities

ANTHONY TRUBISZ, JR.
President and Chief Executive Officer,
Columbia Gas of Maryland, Columbia
Gas of Pennsylvania and Columbia
Gas of Virginia

JOSEPH L. TURNER
President, Primary Energy

ROBERT J. SCHACHT
Executive Vice President and
Chief Operating Officer,
Northern Indiana Public
Service Company